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OVERSEAS PRIVATE INVESTMENT CORPORATION

HEARINGS

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. 2186

A BILL TO PROVIDE FOR THE OVERSEAS PRIVATE INVESTMENT CORPORATION TO MOBILIZE AND FACILITATE INVESTMENT IN DEVELOPING COUNTRIES IN ORDER TO INCREASE TRADE WITH, AND CONTRIBUTE TO THE DEVELOPMENT OF, SUCH COUNTRIES

JUNE 11, 12, 1980

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OVERSEAS PRIVATE INVESTMENT CORPORATION

WEDNESDAY, JUNE 11, 1980

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to notice, at 10:20 a.m., in room 4221, Dirksen Senate Office Building, Hon. Paul Sarbanes presiding.

Present: Senators Sarbanes, Tsongas, Javits, and Percy.

OPENING STATEMENT

Senator SARBANES. Today the Committee on Foreign Relations will hold the first of 2 days of preliminary hearings on S. 2186, a bill introduced by Senator Javits, the ranking minority member of the committee.

S. 2186 would extend OPIC's authority to issue guarantees and investment insurance from its current expiration date which is September 30, 1981, for 4 additional years to September 30, 1985, as well as raise the maximum amount of insurance and guarantees which OPIC may issue from $7.5 billion to $10 billion and from $750 million to $1 billion, respectively.

The bill also makes a number of other modifications in existing law, including removing the $1,000 per capita income limitation which currently restricts OPIC's programs to countries with per capita incomes below $1,000. It also grants OPIC the ability to insure existing investment, as well as new investments and expansions.

I understand that Chairman Church intends to hold additional hearings next year on this matter when the committee would be expected to give final consideration to extending the authority of OPIC to guarantee or insure investments in developing countries.

Chairman Church has commissioned a GAO study to review OPIC's activities. We will be interested in the results and findings of that study.

Both these hearings and the study obviously are designed to provide important information for the commitee's final deliberations with respect to this matter.

Since Senator Javits has had a very strong and keen interest in this matter and has exercised very significant leadership, I am sure he will have some opening remarks.

Following that, we will hear from our first panel of witnesses which consists of the Honorable Thomas Ehrlich, Director of the International Development Cooperation Agency and Chairman of the Board of the Overseas Private Investment Corporation, and the Honorable J. Bruce Llewellyn, President and Chief Executive Officer of OPIC.

[Text of S. 2186 follows:]

X

96th CONGRESS
1st Session

S. 2186

To provide for the Overseas Private Investment Corporation to mobilize and facilitate investment in developing countries in order to increase trade with, and contribute to the development of, such countries.

IN THE SENATE OF THE UNITED STATES

December 20 (legislative day, December 15), 1979

Mr. Javits (for himself and Mr. Ribicoff) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

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A BILL

To provide for the Overseas Private Investment Corporation to mobilize and facilitate investment in developing countries in order to increase trade with, and contribute to the development of, such countries.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Overseas Private Investment Corporation Act".

TITLE I—OVERSEAS PRIVATE INVESTMENT CORPORATION

PURPOSE AND POLICY

SEC. 101. The Overseas Private Investment Corporation (the "Corporation") created by the Foreign Assistance Act of 1969 is hereby established as an independent agency of the United States of America. The Corporation shall serve the national interest by mobilizing and facilitating the participation of United States private capital and skills in less developed friendly countries and areas in order to increase United States trade with, and contribute to the economic and social development of, such countries and areas.

In carrying out its purpose, the Corporation, utilizing broad criteria, shall undertake—

(a) to conduct financing, insurance, and reinsurance operations on a self-sustaining basis, taking into account in its financing operations the economic and financial soundness of projects;

(b) to utilize private credit and investment institutions and the Corporation's guaranty authority as the principal means of mobilizing capital investment funds;

(c) to broaden private participation and revolve its funds through selling its direct investments to private investors whenever it can appropriately do so on satisfactory terms;

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(d) to conduct its insurance operations with due regard to principles of risk management including efforts to share its insurance risks and reinsurance risks;

(e) to the maximum degree possible consistent with its purposes—

(1) to give preferential consideration in its investment insurance, reinsurance, and guaranty activities to investment projects sponsored by or involving United States small business; and

(2) to increase the proportion of projects sponsored by or significantly involving United States small business to at least 30 per centum of all projects insured, reinsured, or guaranteed by the Corporation;

(f) to consider in the conduct of its operations the extent to which less developed country governments are receptive to private enterprise, domestic and foreign, and their willingness and ability to maintain conditions which enable private enterprise to make its full contribution to the development process;

(g) to foster private initiative and competition and discourage monopolistic practices;

(h) to further to the greatest degree possible, in a manner consistent with its goals, the balance-of-payments and employment objectives of the United States;

(i) to conduct its activities in consonance with the international trade, investment, financial, development, and foreign policies of the United States Government;

(j) to advise and assist, within its field of competence, interested agencies of the United States and other organizations, both public and private, national and international, with respect to projects and programs relating to the development of private enterprise in less developed countries and areas;

(k)(1) to decline to issue any contract of insurance or reinsurance, or any guaranty, or to enter into any agreement to provide financing for an eligible investor's proposed investment if the Corporation determines that such investment is likely to cause such investor (or the sponsor of an investment project in which such investor is involved) significantly to reduce the number of his employees in the United States because he is replacing his United States production with production from such investment which involves substantially the same product for substantially the same market as his United States production; and (2) to monitor conformance with the representations of the investor on which the Corporation relied in making the determination required by clause (1);

(l) to decline to issue any contract of insurance or reinsurance, or any guaranty, or to enter into any agreement to provide financing for an eligible investor's proposed investment if the Corporation determines that such investment is likely to cause a significant reduction in the number of employees in the United States; and

(m) to the maximum extent practicable, to give preferential consideration in the Corporation's operations to investment projects in the less developed friendly countries and areas which have per capita incomes of $580 or less in 1977 dollars.

CAPITAL OF CORPORATION

SEC. 102. The capital of the Corporation shall consist of $50,000,000 of which $40,000,000 has been made available and paid in through the appropriation process and $10,000,000 has been made available through a transfer from the Corporation's earned income. The Corporation may increase its capital from time to time by transfers from its earned income. Capital paid into the Corporation shall be evidenced by an equivalent amount of capital stock issued to the Secretary of the Treasury.

ORGANIZATION AND MANAGEMENT

SEC. 103. (a) STRUCTURE OF THE CORPORATION.—The Corporation shall have a Board of Directors, a President, an Executive Vice President, and such other officers and staff as the Board of Directors may determine.

(b) BOARD OF DIRECTORS.—All powers of the Corporation shall vest in and be exercised by or under the authority of its Board of Directors (the "Board") which shall consist of thirteen Directors, including the Chairman. The United States Trade Representative shall be the Chairman of the Board, ex officio. The Director of the United States International Development Cooperation Agency shall be the Vice Chairman of the Board, ex officio. Seven Directors (other than the President of the Corporation, appointed pursuant to subsection (c) who shall also serve as a Director) shall be appointed by the President of the United States, by and with the advice and consent of the Senate, and shall not be officials or employees of the Government of the United States. At least one of the seven Directors appointed under the preceding sentence shall be experienced in small business, one in organized labor, one in cooperatives, and one in international trade. Each such Director shall be appointed for a term of no more than three years. The terms of no more than three such Directors shall expire in any one year. Such Directors shall serve until their successors are appointed and qualified and may be reappointed.

The other Directors shall be officials of the Government of the United States, designated by and serving at the pleasure of the President of the United States.

All Directors who are not officers of the Corporation or officials of the Government of the United States shall be compensated at a rate equivalent to that of level IV of the Executive Schedule (5 U.S.C. 5315) when actually engaged in the business of the Corporation and may be paid per diem in lieu of subsistence at the applicable rate prescribed in the standardized Government travel regulations, as amended, from time to time, while away from their homes or usual places of business.

(c) PRESIDENT OF THE CORPORATION.—The President of the Corporation shall be appointed by the President of the United States, by and with the advice and consent of the Senate, and shall serve at the pleasure of the President. In making such appointment, the President shall take into account private business experience of the appointee. The President of the Corporation shall be its Chief Executive Officer and responsible for the operations and management of the Corporation, subject to bylaws and policies established by the Board.

(d) OFFICERS AND STAFF.—The Executive Vice President of the Corporation shall be appointed by the President of the United States, by and with the advice and consent of the

Senate, and shall serve at the pleasure of the President. Other officers, attorneys, employees, and agents shall be selected and appointed by the Corporation, and shall be vested with such powers and duties as the Corporation may determine. Of such persons employed by the Corporation, not to exceed twenty-five may be appointed, compensated, or removed without regard to the civil service laws and regulations: *Provided,* That under such regulations as the President of the United States may prescribe, officers and employees of the United States Government who are appointed to any of the above positions may be entitled, upon removal from such position, except for cause, to reinstatement to the position occupied at the time of appointment or to a position of comparable grade and salary. Such positions shall be in addition to those otherwise authorized by law, including those authorized by section 5108 of title 5 of the United States Code.

(c) EXPERTS, CONSULTANTS, AND RETIRED OFFICERS.—Experts and consultants or organizations thereof may, as authorized by section 3109 of title 5 of the United States Code, be employed for the performance of functions under this Act, and individuals so employed may be compensated at rates not in excees of the daily equivalent of the highest rate which may be paid to an employee under the General Schedule established by section 5332 of title 5 of the United States Code and while away from their homes or regular places of business, they may be paid actual travel expenses and per diem in lieu of subsistence at the applicable rate prescribed in the standardized Government travel regulations, as amended from time to time. Such contracts may be renewed from time to time without limitation. Service of an individual as an expert or consultant under this subsection shall not be considered as employment or holding of office or position bringing such individual within the provisions of section 3323(a) of title 5 of the United States Code.

INVESTMENT INSURANCE AND OTHER PROGRAMS

SEC. 104. The Corporation is hereby authorized to do the following:

(a) INVESTMENT INSURANCE.—(1) To issue insurance, upon such terms and conditions as the Corporation may determine, to eligible investors covering new or existing investments assuring protection in whole or in part against any or all of the following risks with respect to projects which the Corporation has approved—

(A) inability to convert into United States dollars other currencies, or credits in such currencies, received from or in respect of the project;

(B) loss due to expropriation or confiscation by action of a foreign government; and

(C) loss due to war, revolution, insurrection, or civil strife.

(2) Recognizing that major private investments in less developed friendly countries or areas are often made by enterprises in which there is multinational participation, including significant United States private participation, the Corporation may make arrangements with foreign governments (including agencies, instrumentalities, or political subdivisions thereof) or with multilateral organizations and institutions for sharing liabilities assumed under investment insurance for such investments and may in connection therewith issue insurance to investors not otherwise eligible hereunder, except that liabilities assumed by the Corporation under the authority of this subsection shall be consistent with the purposes of this Act and that the maximum share of liabilities so assumed shall not exceed the proportionate participation by eligible investors.

(3) Not more than 10 per centum of the maximum contingent liability of investment insurance which the Corporation is authorized to issue as set forth in section 105(a)(1) shall be issued to a single investor.

(b) INVESTMENT GUARANTIES.—To issue to eligible investors guaranties of loans and other investments made by such investors assuring against loss due to such risks and upon such terms and conditions as the Corporation may determine: *Provided, however,* That such guaranties on other than loan investments shall not exceed 75 per centum of such investment: *Provided further,* That except for loan investments for credit unions made by eligible credit unions or credit union associations, the aggregate amount of investment (exclusive of interest and earnings) so guaranteed with respect to any project shall not exceed, at the time of issuance of any such guaranty, 75 per centum of the total investment committed to any such project as determined by the Corporation, which determination shall be conclusive for purposes of the Corporation's authority to issue any such guaranty: *And provided further,* That not more than 10 per centum of the maximum contingent liability of investment guaranties which the Corporation is authorized to issue as set forth in section 105(a)(2) shall be issued to a single investor.

(c) Direct Investment.—To make loans in United States dollars repayable in dollars or loans in foreign currencies (including, without regard to section 1415 of the Supplemental Appropriation Act, 1953, such foreign currencies which the Secretary of the Treasury may determine to be excess to the normal requirements of the United States and the Director of the Bureau of the Budget may allocate) to firms privately owned or of mixed private and public ownership upon such terms and conditions as the Corporation may determine. The Corporation may not purchase or invest in any stock in any other corporation, except that it may (1) accept as evidence of indebtedness debt securities convertible to stock, but such debt securities shall not be converted to stock while held by the Corporation, and (2) acquire stock through the enforcement of any lien or pledge or otherwise to satisfy a previously contracted indebtedness which would otherwise be in default, or as the result of any payment under any contract of insurance or guaranty. The Corporation shall dispose of any stock it may so acquire as soon as reasonably feasible under the circumstances then pertaining. Loans may be made under this subsection only for projects that are sponsored by or significantly involve United States small business or cooperatives.

(d) INVESTMENT ENCOURAGEMENT.—To initiate and support through financial participation, incentive grant, or otherwise, and on such terms and conditions as the Corporation may determine, the identification, assessment, surveying and promotion of private investment opportunities, utilizing wherever feasible and effective the facilities of private investors, except that—

(1) the Corporation shall not finance any survey to ascertain the existence, location, extent, or quality of, or to determine the feasibility of undertaking operations for the extraction of oil or gas; and

(2) expenditures financed by the Corporation during any fiscal year on surveys to ascertain the existence, location, extent, or quality of, or to determine

the feasibility of undertaking operations for the extraction of nonfuel minerals may not exceed $200,000.

(e) SPECIAL ACTIVITIES.—To administer and manage special projects and programs, including programs of financial and advisory support which provide private technical, professional, or managerial assistance in the development of human resources, skills, technology, capital savings, and intermediate financial and investment institutions and cooperatives. The funds for these projects and programs may, with the Corporation's concurrence, be transferred to it for such purposes from other sources, public or private.

(f) OTHER INSURANCE FUNCTIONS.—(1) To make and carry out contracts of insurance or reinsurance, or agreements to associate or share risks, with insurance companies, financial institutions, any other persons, or groups thereof, and employing the same where appropriate, as its agent, or acting as their agent, in the issuance and servicing of insurance, the adjustment of claims, the exercise of subrogation rights, the ceding and accepting of reinsurance, and in any other matter incident to an insurance business; except that (A) such agreements and contracts shall be consistent with the purposes of the Corporation set forth in section 101 of this Act and shall be on equitable terms and (B) the Corporation shall not make or carry out any association or risk-sharing agreement for the direct underwriting of insurance by the

Corporation with others, other than on an individual basis where such direct underwriting facilitates the purposes of the Corporation as set forth in section 101 of this Act.

(2) To enter into pooling or other risk-sharing agreements with other national or multinational insurance or financing agencies or groups of such agencies.

(3) To hold an ownership interest in any association or other entity established for the purposes of sharing risks under investment insurance.

(4) To issue, upon such terms and conditions as it may determine, reinsurance of liabilities assumed by other insurers or groups thereof in respect of risks referred to in subsection (a)(1).

The authority granted by paragraph (3) may be exercised notwithstanding the prohibition under subsection (c) against the Corporation purchasing or investing in any stock in any other corporation. The amount of reinsurance of liabilities under this title which the Corporation may issue shall not in the aggregate exceed at any one time an amount equal to the amount authorized for the maximum contingent liability outstanding at any one time under section 105(a)(1). All reinsurance issued by the Corporation under this subsection shall require that the reinsured party retain for his own account specified portions of liability, whether first loss or otherwise.

ISSUING AUTHORITY, DIRECT INVESTMENT FUND AND RESERVES

SEC. 105. (a)(1) The maximum contingent liability outstanding at any one time pursuant to insurance issued under section 104(a) shall not exceed $10,000,000,000.

(2) The maximum contingent liability outstanding at any one time pursuant to guaranties issued under section 104(b) shall not exceed in the aggregate $1,000,000,000.

(3) The Corporation shall not make any commitment to issue any investment guaranty that would result in a fractional reserve less than 25 per centum of the maximum contingent liability then outstanding against guaranties issued or commitments made pursuant to section 104(b) or similar predecessor guaranty authority.

(4) The Congress, in considering the budget programs transmitted by the President for the Corporation, pursuant to section 104 of the Government Corporation Control Act, as amended, may limit the obligations and contingent liabilities to be undertaken under section 104 (a) and (b) as well as the use of funds for operating and administrative expenses.

(5) The authority of section 104 (a) and (b) shall continue until September 30, 1985.

(b) There shall be established a revolving fund, known as the Direct Investment Fund, to be held by the Corporation. Such fund shall consist initially of amounts made available under section 102, shall be available for the purposes authorized under section 104(c), shall be charged with realized losses and credited with realized gains and shall be credited with such additional sums as may be transferred to it under the provisions of section 106.

(c) There shall be established in the Treasury of the United States an insurance and guaranty fund, which shall have separate accounts to be known as the Insurance Reserve and the Guaranty Reserve, which reserves shall be available for discharge of liabilities, as provided in section 105(d), until such time as all such liabilities have been discharged or have expired or until all such reserves have been expended in accordance with the provisions of this section. Such fund shall be funded by: (1) the funds heretofore transferred to the Corporation out of funds available to discharge liabilities under predecessor guaranty authority or made available to the Corporation under predecessor guaranty authority, and (2) such sums as shall be appropriated pursuant to section 105(e) for such purposes. The allocation of such funds to each such reserve shall be determined by the Board after consultation with the Secretary of the Treasury. Additional amounts may thereafter be transferred to such reserves pursuant to section 106.

(d) Any payment made to discharge liabilities under investment insurance or reinsurance issued under section 104 or under similar predecessor guaranty authority shall be paid first out of the insurance reserve, as long as such reserve remains available, and thereafter out of funds made available pursuant to section 105(e). Any payments made to discharge liabilities under guaranties issued under section 104(b) or under similar predecessor guaranty authority shall be paid first out of the guaranty reserve as long as such reserve remains available, and thereafter out of funds made available pursuant to section 105(e).

(e) There are authorized to be appropriated to the Corporation, to remain available until expended, such amounts as may be necessary from time to time to replenish or increase the insurance and guaranty fund, to discharge the liabilities under insurance, reinsurance, or guaranties issued by the Corporation or issued under predecessor guaranty authority, or to discharge obligations of the Corporation purchased by the Secretary of the Treasury pursuant to this subsection. However, no appropriations shall be made to augment the insurance reserve until the amount of funds in the insurance reserve is less than $25,000,000. Any appropriations to augment the insurance reserve shall then only be made either pursuant to specific authorization enacted after the date of enactment of this Act, or to satisfy the full faith and credit provision of section 107(b). In order to discharge liabilities under investment insurance, reinsurance or guaranties, the

Corporation is authorized to issue from time to time for purchase by the Secretary of the Treasury its notes, debentures, bonds, or other obligations; but the aggregate amount of such obligations outstanding at any one time shall not exceed $250,000,000. Any such obligation shall be repaid to the Treasury within two years after the date of issue of such obligation. Any such obligation shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of any obligation authorized by this subsection. The Secretary of the Treasury shall purchase any obligation of the Corporation issued under this subsection, and for such purchase he may use as a public debt transaction the proceeds of the sale of any securities issued under the Second Liberty Bond Act after the date of enactment of this Act. The purpose for which securities may be issued under such Bond Act shall include any such purchase.

INCOME AND REVENUES

SEC. 106. In order to carry out the purposes of the Corporation, all revenues and income transferred to or earned by the Corporation, from whatever source derived, shall be held by the Corporation and shall be available to carry out its purposes, including without limitation—

(a) payment of all expenses of the Corporation, including investment promotion expenses;

(b) transfers and additions to the insurance or guaranty reserves, the direct investment fund established pursuant to section 105, the capital of the Corporation, and such other funds or reserves as the Corporation may establish, at such time and in such amounts as the Board may determine; and

(c) payment of dividends, on capital stock, which shall consist of and be paid from net earnings of the Corporation after payments, transfers, and additions under subsections (a) and (b) hereof.

GENERAL PROVISIONS RELATING TO INSURANCE AND GUARANTY PROGRAM

SEC. 107. (a) Insurance, guaranties and reinsurance issued under this Act shall cover investment made in connection with projects in any less developed friendly country or area with the government to which the President of the United States has agreed to institute a program for insurance, guaranties or reinsurance. The Corporation shall determine that suitable arrangements exist for protecting the interest of the Corporation in connection with any insurance, guaranty or reinsurance issued under this Act, including arrangements concerning ownership, use, and disposition of the currency, credits, assets, or investments on account of which payment under such insurance, guaranty, or reinsurance is to be made, and right, title, claim, or cause of action existing in connection therewith.

(b) All guaranties issued prior to July 1, 1956, all guaranties issued under sections 202(b) and 413(b) of the Mutual Security Act of 1954, as amended, all guaranties heretofore issued pursuant to prior guaranty authorities repealed by the Foreign Assistance Act of 1969, all insurance, reinsurance, and guaranties issued pursuant to title IV of the Foreign Assistance Act of 1961, as amended, and this Act shall constitute obligations, in accordance with the terms of such insurance, reinsurance, or guaranties, of the United States of America and the full faith and credit of the United States of America is hereby pledged for the full payment and performance of such obligations.

(c) Fees shall be charged for insurance, guaranty, and reinsurance coverage in amounts to be determined by the Corporation. In the event fees charged for investment insurance, guaranties, or reinsurance are reduced, fees to be paid under existing contracts for the same type of insurance, guaranties, or reinsurance and for similar guaranties issued under predecessor guaranty authority may be reduced.

(d) No insurance, guaranty, or reinsurance of any equity investment shall extend beyond twenty years from the date of issuance.

(e) Compensation for insurance, reinsurance, or guaranties issued under this Act shall not exceed the dollar value, as of the date of the investment, of the investment made in the project with the approval of the Corporation plus interest, earnings or profits actually accrued on said investment to the extent provided by such insurance, reinsurance, or guaranty, except that the Corporation may provide (i) that appropriate adjustments in the insured dollar value be made to reflect the replacement cost of project assets, and (ii) that compensation for loss under insurance of equity investment shall be equal to the net book value attributable to such equity investment on the date of loss. The Corporation shall limit the amount of direct insurance and reinsurance issued by it under section 104 so that risk of loss as to at least 10 per centum of the total investment of the insured and its affiliates in the project is borne by the insured and such affiliates, except that limitation shall not apply to direct insurance or reinsurance of (i) investments by small businesses or (ii) loans by banks or other financial institutions to unrelated parties.

(f) No payment may be made under any guaranty, insurance, or reinsurance issued pursuant to this Act for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

(g) Insurance, guaranties, or reinsurance of a loan or equity investment of an eligible investor in a foreign bank, finance company, or other credit institution shall extend only to such loan or equity investment and not to any individual loan or equity investment made by such foreign bank, finance company, or other credit institution.

(h) Claims arising as a result of insurance, reinsurance or guaranty operations under this Act or under predecessor guaranty authority may be settled, and disputes arising as a result thereof may be arbitrated with the consent of the parties, on such terms and conditions as the Corporation may determine. Payment made pursuant to any such settlement, or as a result of an arbitration award, shall be final and conclusive notwithstanding any other provision of law.

(i) Each guaranty contract executed by such officer or officers as may be designated by the Board shall be conclusively presumed to be issued in compliance with the requirements of this Act.

(j)(1) No payment may be made under any insurance or reinsurance which is issued under this title on or after the date of enactment of this subsection for any loss occurring with respect to a project, if the preponderant cause of such loss was an act by the investor seeking payment under this Act, by a person possessing majority ownership and control of the investor at the time of the act, or by any agent of such investor or controlling person, and a court of the United

States has entered a final judgment that such act constituted a violation under the Foreign Corrupt Practices Act of 1977.

(2) The Corporation shall adopt regulations setting forth appropriate conditions under which any person convicted under the Foreign Corrupt Practices Act of 1977 for an offense related to a project insured or otherwise supported by the Corporation shall be suspended, for a period of not more than five years, from eligibility to receive any insurance, reinsurance, guaranty loan, or other financial support authorized by this Act.

DEFINITIONS

SEC. 108. As used in this Act—

(a) the term "investment" includes any contribution or commitment of funds, commodities, capital goods, equipment, services, patents, processes, or techniques, in the form of (1) a loan or loans to an approved project, (2) the purchase of a share of ownership in any such project, (3) participation in royalties, earnings, or profits of any such project, and (4) the furnishing of commodities, capital goods, equipment or services pursuant to a lease or other contract;

(b) the term "expropriation" includes, but is not limited to, any abrogation, repudiation, or impairment by a foreign government of its own contract with an investor with respect to a project, where such abrogation, repudiation, or impairment is not caused by the investor's own fault or misconduct, and materially adversely affects the continued operation of the project;

(c) the term "eligible investor" means: (1) United States citizens; (2) corporations, partnerships, or other associations including nonprofit associations, created under the laws of the United States or any State or territory thereof in which the United States citizens have a significant interest; and (3) foreign corporations, partnerships, or other associations majority control of which is held by such United States citizens, corporations, partnerships, or other associations: *Provided, however,* That in the case of any loan investment a final determination of eligibility may be made at the time the insurance or guaranty is issued; in all other cases, the investor must be eligible at the time a claim arises as well as the time the insurance or guaranty is issued; and

(d) the term "predecessor guaranty authority" means prior guaranty authorities (other than housing guaranty authorities) repealed by this Act, the Foreign Assistance Act of 1969, section 202(b) and 413(b) of the Mutual Security Act of 1954, as amended, and section 111(b)(3) of the Economic Cooperation Act of

1948, as amended (exclusive of authority relating to informational media guaranties).

GENERAL PROVISIONS AND POWERS

SEC. 109. (a) The Corporation shall have its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be resident thereof.

(b) The Corporation shall retain all obligations, assets, and related rights and responsibilities arising out of, or related to, predecessor programs and authorities similar to those provided for in section 104 (a), (b), and (d).

(c) The Corporation shall be subject to the applicable provisions of the Government Corporation Control Act, except as otherwise provided in this Act.

(d) To carry out the purposes of this Act, the Corporation is authorized to adopt and use a corporate seal, which shall be judicially noticed; to sue and be sued in its corporate name; to adopt, amend, and repeal bylaws governing the conduct of its business and the performance of the powers and duties granted to or imposed upon it by law; to acquire, hold, or dispose of, upon such terms and conditions as the Corporation may determine, any property, real, personal, or mixed, tangible or intangible, or any interest therein; to invest funds derived from fees and other revenues in obligations of the United States and to use the proceeds therefrom, including earnings and profits, as it shall deem appropriate; to indemnify directors, officers, employees, and agents of the Corporation for liabilities and expenses incurred in connection with their Corporation activities; to require bonds of officers, employees, and agents and pay the premiums therefor; notwithstanding any other provision of law, to represent itself or to contract for representation in all legal and arbitral proceedings; to purchase, discount, rediscount, sell, and negotiate, with or without its endorsement or guaranty, and guarantee notes, participation certificates, and other evidence of indebtedness (provided that the Corporation shall not issue its own securities, except participation certificates for the purpose of carrying out section 101(c) or participation certificates as evidence of indebtedness held by the Corporation in connection with settlement of claims under section 107(h)); to make and carry out such contracts and agreements as are necessary and advisable in the conduct of its business; to exercise the priority of the Government of the United States in collecting debts from bankrupt, insolvent, or decedents' estates; to determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid, subject to provisions of law specifically applicable to Government corporations; to collect or compromise any obligations assigned to or held by the Corporation including any legal or equitable rights accruing to the Corporation; and to take such actions as may be necessary or appropriate to carry out the powers herein or hereafter specifically conferred upon it.

(e) Funds made available for the purpose of this Act may be used for printing and binding without regard to the provisions of any other law, and for expenditures outside the United States for the procurement of supplies and services without regard to such laws and regulations governing the obligation and expenditure of funds of the United States Government as may be necessary to accomplish the purposes of this Act.

(f) No provision of any other law shall prohibit the operation of the programs authorized by this Act in any less developed country if the President of the United States has determined that their operation is important to the national interest.

(g) The Corporation shall develop and implement specific criteria intended to minimize the potential environmental implications of projects undertaken by investors abroad in accordance with any of the programs authorized by this Act.

(h) The corporation shall prepare and maintain for each investment project it insures, finances, or reinsures, a profile consisting of data appropriate to measure the expected trade and developmental effects of such project.

(i) The Corporation shall take into account in the conduct of its programs in a country, in consultation with the

Secretary of State, all available information about observance of and respect for human rights and fundamental freedoms in such country and the effect the operation of such programs will have on human rights and fundamental freedoms in such country. The Corporation shall not provide any insurance, reinsurance, guaranty, or loan for any project in a country when the Secretary of State has made a determination under section 116 of the Foreign Assistance Act that the government of such country engages in a consistent pattern of gross violations of internationally recognized human rights unless such a project will directly benefit the needs of the needy people in such a country or the national security interest of the United States.

(j) The provisions of section 955 of title 18 of the United States Code shall not apply to prevent any person, including any individual, partnership, corporation, or association, from acting for, or participating in, any operation or transaction arising under this Act, or from acquiring any obligation issued in connection with any operation or transaction arising under this Act.

(k) Whenever the President of the United States determines it to be in furtherance of the purposes of this Act, the functions authorized under this Act may be performed without regard to such provisions of law (other than the Renegotiation Act of 1951, as amended (50 U.S.C. App. 1211 et seq.)), regulating the making, performance, amendment, or modification of contracts and the expenditure of funds of the United States Government as the President may specify.

(l) The Corporation may make and perform agreements and contracts with, or enter other transactions with, any individual, corporation, or other body of persons, government or government agency, whether within or without the United States and international organizations in furtherance of the purposes and within the limitations of this Act.

(m) Except as otherwise provided in this Act, funds shall be available to carry out the provisions of this Act as authorized and appropriated each fiscal year. Provisions of this Act authorizing the appropriation of funds shall be construed to authorize the granting in any appropriation Act of authority to enter into contracts within the amounts so authorized to be appropriated, creating obligations in advance of appropriations.

(n) Foreign currencies received by the Corporation as a result of its operations may be transferred to the Secretary of the Treasury for sale to agencies of the United States Government for payment of their obligations outside the United States, and the United States dollars received as reimbursement shall be returned to the Corporation. Foreign currencies so received which are in excess of the requirements of the United States Government in payment of its obligations outside the United States shall be available for the authorized purposes of this Act.

(o) The Corporation may accept and use in furtherance of the purposes of this Act, money, funds, property, and services of any kind made available by gift, devise, bequest, grant, or otherwise for such purpose.

SMALL BUSINESS DEVELOPMENT

SEC. 110. The Corporation shall undertake, in cooperation with appropriate departments, agencies, and instrumentalities of the United States as well as private entities and others, to broaden the participation of United States small business, cooperatives, and other small United States investors in the development of small private enterprise in less developed friendly countries or areas. The Corporation shall allocate up to 50 per centum of its annual net income, after making suitable provision for transfers and additions to reserves, to assist and facilitate the development of projects consistent with the provisions of this section. Such funds may be expended, notwithstanding the requirements of section 101(a), on such terms and conditions as the Corporation may determine, through loans, grants, or other programs authorized by section 104.

REPORTS TO THE CONGRESS

SEC. 111. (a) After the end of each fiscal year, the Corporation shall submit to the Congress a complete and detailed report of its operations during such fiscal year. Such report shall include—

(1) an assessment, based upon the profiles required by section 109(h), of the trade and development impact and benefits of the projects with respect to which such profiles are prepared, and of the extent to which the operations of the Corporation complement or are compatible with the trade and development policies of the United States; and

(2) a description of any project for which the Corporation—

(A) refused to provide any insurance, reinsurance, guaranty, financing, or other financial support, on account of gross violations of human rights referred to in section 109(i); or

(B) notwithstanding such violations, provided such insurance, reinsurance, guaranty, financing, or financial support, on the basis of a determination (i) that the project will directly benefit the needy people in the country in which the project is located, or (ii) that the national security interest so requires.

TITLE II—AMENDMENT OF FOREIGN ASSISTANCE ACT OF 1961

SEC. 201. The Foreign Assistance Act of 1961, as amended, is hereby amended as follows:

(a) Section 222 is amended by deleting the parenthetical language in line three of subsection (a) thereof and inserting: "(as defined in section 108(c) of the Overseas Private Investment Corporation Act)".

(b) Section 222A is amended by deleting subsections (f) and (g) thereof.

(c) Section 610 is amended by deleting the following language in subsection (a) thereof: "(except funds made available pursuant to title IV of chapter 2 of Part I)".

(d) Section 620 is amended by deleting subsection (l) thereof.

(e) Section 636 is amended by deleting the following language in subsection (f) thereof: "or by the Corporation established under title IV of chapter 2 of Part I with respect to loan activities which it carries out under the provisions of the Agricultural Trade Development and Assistance Act of 1954, as amended".

(f) Title IV of chapter 2 of part I of the Foreign Assistance Act of 1961, as amended, is repealed.

Senator SARBANES. Senator Javits.

Senator JAVITS. Thank you.

Mr. Chairman, first I would like to thank the chairman of the committee, Senator Church, for authorizing us to conduct these hearings this year. This is a fantastically interesting subject and I believe that we need the opportunity to make the case to extend OPIC's authorization to 1985.

Second, I would like to thank you, Mr. Chairman, for the willingness and cooperative spirit you have shown in being willing to preside at these hearings.

In the bill which is before us, Senators Ribicoff and Percy and I have sought to raise and to answer some very significant questions about the future direction of OPIC.

I ask unanimous consent that the statement I made in introducing the bill in December 1979, be made a part of these remarks.

Senator SARBANES. Without objection, it is so ordered.

[The information referred to follows:]

[From the Congressional Record—Senate, Dec. 20, 1979]

By Mr. Javits (for himself and Mr. Ribicoff):

S. 2186. A bill to provide for the Overseas Private Investment Corporation to mobilize and facilitate investment in developing countries in order to increase trade with, and contribute to the development of, such countries; to the Committee on **Foreign Relations.**

OVERSEAS PRIVATE INVESTMENT CORPORATION ACT

Mr. JAVITS. Mr. President, on behalf of myself and Senator RIBICOFF, I am introducing today the Overseas Private Investment Corporation (OPIC) Act, which will extend OPIC's authority through 1985. In addition, the bill modifies the Corporation's purpose to reflect the growing recognition in Congress that U.S. efforts to help the developing countries achieve economic growth have highly beneficial effects on U.S. trade and hence on U.S. employment.

As a long-time advocate of the benefits of international trade and most recently as a member of the Executive Committee of the President's Export Council, I have worked vigorously to raise the export consciousness not only of American business and labor but also of the Members of Congress and of officials in successive administrations. Today's energy crisis, which it is estimated will shift an extra $100 billion in the next 2 years from the oil consumers to the OPEC oil producers only as a result of this year's oil price increases, makes it imperative that we have in place enlightened U.S. policies that will help not only the hardest hit non-oil-developing countries to keep their economies going but also the U.S. economy by generating increased exports to these countries.

This dual objective has always been the purpose of OPIC but in the past, the strong U.S. international economic position had relegated this critical relationship between U.S. investment abroad, which OPIC's programs facilitate, and U.S. exports to a secondary position. Today, we can no longer shut our eyes to this essential linkage and we must permit OPIC to modify its operations and programs so that it can better serve the original dual purpose.

When earlier this year the Senate considered reorganization plan No. 2, which established the International Development Cooperation Agency (IDCA), many Senators, including the distinguished chairman of the Government Affairs Committee which considered the reorganization proposal, expressed the view that OPIC had more trade-related functions than a development-related function. While the Congress finally concurred in putting OPIC within IDCA, the committee, in its report, reserved the right to examine the question thoroughly in connection with its consideration of the President's trade reorganization proposal. During the floor debate on IDCA, I pointed out that while—

"OPIC's development objectives are important . . . they cannot substitute for the hard decisions that American business must first make with respect to where it will invest its capital."

I further pointed out that OPIC can facilitate such investment decisions by providing political risk insurance in developing countries where the overall investment climate is favorable."

The issue of OPIC's proper role arose once again during the consideration of reorganization plan No. 3 on trade reorganization; and once again the Congress reaffirmed its belief that OPIC had an important export expansion function. At Congress insistence, the original version of the reorganization plan was modified by the administration to make the U.S. Trade Representative (USTR) the vice-chair of OPIC, although OPIC was kept within IDCA. The committee report again emphasized that —

"As the President's principal adviser on international trade matters, the views of the USTR on the trade aspects of matters before OPIC will be entitled to special weight.

In response to the concerns of Senators, including again the chairman of the Governmental Affairs Committee, that OPIC must have a greater trade-related function the administration in a series of letters from OMB Director McIntyre, Ambassador Askew and IDCA Director Ehrlich, recognized the relationship of the OPIC program to the Government's efforts to increase the volume and value of U.S. exports. I ask unanimous consent that the letters appear at the end of my statement.

The legislation that is being introduced today dealing with the extension of OPIC from the effective date of the bill until September 30, 1985, opens this question to give an opportunity for a decision based on experience with the present formulation. Giving OPIC a trade related function, however, does not mean that OPIC would no longer have a development function. Its development function, however, must be broadened beyond merely complementing the basic human needs element of U.S. development policy, which primarily focuses on official grants and concessional aid to the poorest countries to including a recognition that development must also focus on promoting economic growth in the middle-income developing countries. This latter objective is best served by having U.S. Government programs that facilitate the participation of the U.S. private sector in the development process of those developing countries that want such participation. Such a development function is entirely consistent with an objective that seeks also to serve the needs of U.S.-based business interested in investing in projects in a developing country that will either directly or indirectly lead to increased U.S. exports.

Mr. President, I would like to demonstrate briefly how OPIC's programs in the developing countries meet the dual objective of contributing to the economic growth of the developing countries, while helping strengthen U.S. exports.

In fiscal year 1979, OPIC insured or financed investments in 84 projects in 33 countries, of which 43 were in manufacturing, 7 in agribusiness, 12 in financing, 10 in other services, 5 in construction, 5 in minerals, energy, forest products, and 2 in tourism. Forty-five projects were located in countries with a per capita GNP of $520 or less in 1975 dollars. More than half of the enterprises were joint ventures with local investors, most of whom held a 50 percent or greater ownership interest.

Total investment in these projects was $894.17 million, of which U.S. investors supplied approximately 56 percent. The host country investors supplied $221 million, third country investors $105 million, and multilateral lending institutions added another $22 million.

The 84 projects it is estimated will generate an estimated 16,894 new jobs in the developing nations during the first 5 years of operation, 25 percent of this total will be positions at the managerial or professional level. Thousands of additional manufacturing and service sector jobs can be created indirectly through increased demands for local goods and services. Technical and administrative skills also can be transferred to the employees, and nonwage benefits extended to them and their families.

It is estimated that the products and services produced by the projects can replace about $207 million worth of imports each year, generate an estimated $258 million in export earnings, and local taxes in excess of $68 million annually. Net effect on the host countries' balance of payments is estimated to amount to $149 million in annual savings.

This net balance of payments savings masks, however, the beneficial effect that these projects have had on U.S. trade and employment. These projects generated $330.2 million in initial procurement from U.S. exporters and an estimated $637 million in U.S. exports in the following 5-year period, for a total of $967.2 million in direct U.S. exports. It is further estimated that 16,744 man-years of U.S. employment can be generated over that 5-year period.

SUMMARY OF THE BILL

The bill establishes OPIC as an independent agency of the United States of America with the expanded purpose of increasing U.S. trade with, as well as contributing to the development of less developed friendly countries and areas by providing various insurance and financial services to the U.S. business community. The following are the major changes in OPIC's present statutory authority under the Foreign Assistance Act ("FAA") carried out by the bill:

1. Independent agency under separate statute. OPIC would be an independent agency with its own statute, to emphasize OPIC's additional purposes relating to U.S. trade.

OPIC was created 10 years ago under the Foreign Assistance Act (FAA) to consolidate most of the U.S. Government investment incentive programs under one agency whose sole purpose was to encourage U.S. private investment in developing countries. Prior to that, those programs had been operated by the Agency for International Development ("AID"). The transfer of these programs from AID to OPIC was effected in order to assure that they would be operated in a businesslike manner and be responsive to the business community. This bill offers logical extension of the original consolidation, and now that OPIC would be given a trade purpose, in addition to a development purpose, its statutory authority would be in its own legislative charter as has been done in the past with other wholly owned Government corporations, with its corporate powers vested in its Board of Directors which would have the statutory responsibility for the accomplishment of OPIC's purposes. The views of the other Government agencies and officials responsible for the trade development policies of the United States would be addressed through representation on the OPIC Board of Directors.

2. Trade purpose. Section 1 of the bill gives OPIC the purpose of encouraging those investments in developing countries which will directly or indirectly increase U.S. trade with such countries while continuing OPIC's development purpose. It is in the national interest of the United States to encourage those investments which will result in immediate and long-range benefits for the U.S. economy such as the generation of U.S. business activity and jobs. Investments in developing countries which have beneficial trade effects for the United States are worthy of specific U.S. Government support. Other developed nations have supported such investments for many years and they are reaping the benefits. The bill will permit the United States to do the same.

3. Elimination of $1,000 per capital limit. Section 1 of the bill removes the restriction on operation of OPIC programs in countries that have per capita incomes in 1975 dollars of more than $1,000 now contained in section 231 of the FAA. The restriction was added to the OPIC statute in 1978 in order to concentrate OPIC's development responsibility in those countries having the greatest need of development. However, OPIC has adequate resources available to serve the needs of both the poorest and the middle income developing countries. The additional income generated by OPIC from its support of projects in the middle income developing countries can be utilized for the support of projects in the poorer developed countries. Further, the restriction limits one of the few development tools that the United States has in the middle income developing countries. Moreover, by utilization of an arbitrary national average, the restriction fails to take into account the disparity of per capita incomes within most nations. For example, the per capita income in the northeast of Brazil is among the poorest in the hemisphere even though Brazil's national average is above $1,000.

Furthermore, the restriction would not be compatible with the view that OPIC should be an agency that facilitates U.S. business participation in the developing countries rather than one that directs U.S. business activities into predetermined countries. Therefore, the bill returns to the pre-1978 formulation regarding the operation of OPIC programs in developing countries. OPIC programs will be available in all developing countries, but OPIC is to give preferential consideration to projects in the poorest countries.

4. Board of Directors. Section 3 of the bill reverses the order of chairman and vice chairman of the OPIC Board, now allotted to the Director of the U.S. International Development Cooperation Agency and the U.S. Trade Representative, respectively.

5. Insurance authority. Section 4(a) of the bill changes the insurance authority of OPIC by (i) specifically stating that OPIC may insure existing investments, and (ii) giving OPIC the ability to insure against the risks of civil strife. While there is no specific prohibition on the issuance of insurance to existing investments in OPIC's present statute, OPIC has traditionally limited its authority to new investment or to modernizations or expansions of existing investments.

Nevertheless, if the availability of OPIC insurance can encourage investors to retain investments having positive development or trade benefits, OPIC insurance authority should be made available to such investors. The bill would also permit OPIC to provide insurance coverage on the risk that investment assets might be damaged by civil strife within the host country. U.S. investors abroad are being faced with the risks of civil strife, such as organized violence directed at U.S.-owned property. Present OPIC authority limits coverage of damage to that resulting from war, revolution, or insurrection. Civil strife is a real political risk and should be covered by OPIC.

6. Increase in issuing authority. Section 5 (a) and (b) of the bill increases OPIC's insurance and guaranty authority by $2,500,000,000 and $250,000,000, respectively, in order to take into account the anticipated increase in OPIC activity in the energy sector.

The U.S. Government has an interest in encouraging further development of energy resources in non-OPEC countries in order to diversify worldwide sources of energy and to permit countries hard hit by the OPEC price hikes to utilize their energy resources. For this reason OPIC has been encouraged to develop a major program for the energy sector. During the 1977–78 congressional review of OPIC, this program was strongly supported by the Congress. To date, OPIC has issued insurance for four petroleum projects with insurance coverage of $333,000,000, utilizing $181,000,000 of OPIC's maximum contingent liability.

In addition, OPIC has received registrations for insurance and/or guaranty coverage for 55 projects in 25 countries by 32 companies. Since the insurance and guaranty authority in the bill is extended to September 30, 1985, OPIC should be given greater capacity to absorb the size and volume of projects which are expected in the 1980's.

While the above registrations reflect a growing interest by energy firms in the OPIC energy program, I believe that OPIC's coverage could be improved to provide greater incentives for LDC oil and gas activities. For example, a survey of oil companies conducted by Senators PERCY, BELLMON, and myself, elicited numerous specific recommendations about the adequacy of OPIC coverage and it is our expectation that these and other questions relating to OPIC's energy program will be thoroughly examined in the hearings on the legislation. I ask unanimous consent that a summary of the responses be printed in the RECORD following my remarks. It is essential that U.S. companies be encouraged to search for the vast reserves that may yet be undiscovered and OPIC should where possible provide such coverage.

7. Ten percent coinsurance, Section 7(e) of the bill adds an additional feature to make the OPIC insurance program more attractive to small businesses by eliminating the 10 percent coinsurance provision presently contained in the OPIC statute. OPIC has always been required to give preferential consideration to small business projects. By removing the coinsurance feature, small businesses will obtain a tangible benefit.

8. Eligible investor. Section 8 of the bill would modify the present definition of "eligible investor" in two respects. U.S. entities would no longer have to satisfy a specific ownership standard to be eligible for OPIC assistance. The present eligibility requirement has been interpreted to require that 50 percent of each class of issued and outstanding stock be held beneficially by U.S. citizens. The bill states that wherever U.S. citizens have a significant interest in a business enterprise, such enterprise should be eligible for OPIC programs. This interest could be reflected by stock ownership in the entity, the number of U.S. jobs related to the entity or the volume of U.S. trade generated by the entity. As regards foreign entities, the bill would reduce the present standard requiring 95 percent ownership by U.S. citizens to majority control of the entity by U.S. citizens. By expanding the class of investors eligible for OPIC programs, the bill allows greater potential for increased trade benefits to the United States resulting from the foreign enterprise assisted by OPIC, and also affords greater opportunities for U.S. support of developmental projects.

9. Extension of authority. Section 5(a)(5) of the bill continues OPIC's insurance and guaranty authority until September 30, 1985.

The bill also contains other minor operational and technical changes, and retains the small business and human rights requirements of the present legislation.

Mr. President, I believe that this bill will improve the agency's ability to make U.S. business more internationally—and export—minded. The United States is far behind other countries in this regard. Under the present legislation OPIC cannot operate in those countries with per capita incomes of over $1,000 per year. These are the very countries in which foreign private investment can make significant contributions and by not letting OPIC operate its programs there because we define "development" narrowly, we are conceding export markets to our competitors in the other industrialized countries.

OPIC's new status and operating mandate under this bill will, however, not detract from its developmental objectives, since it will be helping those developing countries that can and do attract badly needed foreign investment and the result for basic human needs will be greater than if these investments were not made at all.

Mr. President, I hope that my colleagues once they have had a chance to review this legislation, will join Senator RIBICOFF and me in cosponsoring the Overseas Private Investment Corporation Act.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., October 29, 1979.

Hon. JACOB K. JAVITS,
U.S Senate,
Washington, D.C.

DEAR SENATOR JAVITS: As you know, Reorganization Plan No. 2 of 1979 made the Director of the International Development Cooperation Agency the Chair of the Board of Directors of the Overseas Private Investment Corporation. Reorganization Plan No. 3 of 1979, now before the Congress, provides that the U.S. Trade Representative shall be Vice Chair of the OPIC Board.

In the course of Congressional consideration of the foreign assistance and trade reorganization proposals, concerns have been expressed about the status and mission of OPIC. I recognize the significant impact of U.S. foreign direct investment on the generation of U.S. exports, and the relationship of the OPIC program to the Government's efforts to increase the volume and value of U.S. exports.

The Administration will be transmitting new authorizing legislation for OPIC early next year. I assure you that in preparing that legislation, we will give careful consideration to the relationship between the OPIC program and the Government's efforts to increase the volume and value of U.S. exports, as well as to the development concerns expressed in the OPIC legislation enacted last year.

I appreciate your continuing cooperation in the trade and other reorganization efforts.

Sincerely,

JAMES T. MCINTYRE, Jr.,
Director.

THE SPECIAL REPRESENTATIVES FOR
TRADE NEGOTIATIONS,
Washington, D.C., October 29, 1979.

Hon. JACOB JAVITS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR JAVITS: As you are aware, the trade reorganization proposal now before the Congress will make the U.S. Trade Representative the Vice Chair of the Board of Directors of the Overseas Private Investment Corporation.

I recognize the significant impact of U.S. foreign direct investment on the generation of U.S. exports, and the relationship of the OPIC programs to the Government's efforts to increase the volume and value of U.S. exports. I will of course have in mind the impact of OPIC's activities on U.S. exports when participating in OPIC affairs. I intend to participate actively in the affairs of the agency.

I expect to work closely with other senior officials of the Administration next year when the status of OPIC is reexamined in connection with the transmission of new authorizing legislation, particularly in terms of the impact the legislative options would have on this country's international trade position.

Sincerely,

REUBIN O'D. ASKEW.

U.S. INTERNATIONAL DEVELOPMENT
COOPERATIVE AGENCY,
Washington, D.C., October 29, 1979.

Hon. JACOB K. JAVITS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR JAVITS: As Director of the International Development Cooperation Agency, I serve *ea officio* as Chair of the Board of Directors of the Overseas Private Investment Corporation. As you know, the trade reorganization proposal now before the Congress will make the U.S. Trade Representative the Vice Chair of the OPIC Board.

I recognize the significant impact of U.S. foreign direct investment on the generation of U.S. exports and the relationship of the OPIC program to the Government's efforts to increase the volume and value of U.S. exports. I will of course have this in mind when considering projects and policy issues that come before the OPIC Board. In making recommendations to the President on matters concerning OPIC, I will consider the impact OPIC has on international trade as well as on U.S. development policy.

I want to assure you that I intend to work closely with the Trade Representative to see that OPIC does all it can, consistent with the laws governing OPIC, to promote expansion of exports from the United States. I shall afford full consideration to his views on the trade aspects of issues coming before the OPIC Board.

Cordially,

THOMAS EHRLICH.

SUMMARY OF RESPONSES

BACKGROUND

In November of 1978 Senators Javits, Percy and Bellmon sent a questionnaire to approximately 30 U.S. oil companies soliciting their views on the need for political risk insurance to expand their overseas activities and the adequacy of O.P.I.C. insurance for this purpose. (A copy of the questionnaire is attached.)

Thirteen companies responded, among them four of the 8 largest integrated companies with active past or present overseas oil development programs. The respondents were: Getty, Occidental, Gulf, Atlantic Richfield, Sun Oil, Tenneco, Marathon, Phillips Petroleum, Delco, Standard Oil of California, Texaco and Cities Service. Because the responses were solicited on the basis of a guarantee of confidentiality, this summary of results will not be attributed to any of the opinions offered.

RESULTS

All but one company said political risks were one of the three major factors in a decision to proceed with an overseas oil project. (Others cited were tax policy and profit economies.) All but two companies felt expanded availability of U.S. political risk insurance would be of significant value in encouraging them to undertake new overseas projects and to expand existing efforts. (Also cited by most companies as necessary policy changes were liberalization of U.S. tax laws covering overseas oil income and expanded use of bilateral treaties to protect U.S. company investments.)

Altogether, the companies listed 32 projects not undertaken because of political risk.

Among them, the companies listed the following non-OPEC countries as areas in which they have identified specific areas of oil and gas potential whose development would be more attractive if expanded political risk insurance were available:

Peoples Republic of China, Chile, South Korea, Argentina, Mexico, Egypt, Malaysia, Guatemala, Panama.

Angola, Zaire, Turkey, Ecuador, Ethiopia, Thailand, Sri Lanka, Honduras, Afghanistan.

Sudan, Pakistan, Peru, Philippines, Kenya, Brazil, Tanzania, Ghana, Malta.

There was virtually unanimous agreement among the respondents as to the inadequacies of existing O.P.I.C. insurance coverage. In essence—the large investment required for oil development and certain specific characteristics of the projects—such as the vulnerability of discovered reserves to expropriation—make the general format of O.P.I.C. coverage less well-suited to these investments than to other forms of overseas business ventures.

The principal criticisms were:

Total project costs should be covered including equity and guaranteed debt and the "economic value of the contract" with the host government.

The current O.P.I.C. coverage of "net unrecovered costs" does not protect all these investments nor the value of the in-ground reserves.

The current O.P.I.C. limits, $50 million per project and $100 million per country, are too low to be useful for substantial oil projects.

O.P.I.C. rates are too high for the coverage offered.

Certain kinds of coverage in the O.P.I.C. package are unnecessary for oil projects.

Several respondents suggested the exclusion of O.P.I.C. country projects. Andean Pact country projects, and of major oil company projects should be removed.

CONCLUSION

While O.P.I.C. coverage can play a limited but useful role in its present form and could, with major changes, play a significant future role, the present system is inadequate. However, changes in the O.P.I.C. system would only be appropriate following through consideration of the fundamental scope and terms of both the nature and size per project and per country of the coverage. O.P.I.C.s role in providing insurance for oil and gas development will be an essential element in the review of O.P.I.C.'s authorizing legislation which I expect will begin next year.

QUESTIONS

1. What are your company's primary considerations concerning oil exploration options outside the United States?

2. What role does political risk play in your company's decisions to invest or forego investment outside the United States?

3. Have there been areas of potential exploration or development, particular "marginal" fields, which your company has considered in the past but rejected because the political risk was deemed too great?

4. If so, could you provide some examples of what political risk(s) was (were) involved?

5. Are there areas of the world where you are not now considering exploring and/or investing where you might explore and/or invest should your insurance needs against political risk be met? Can you give examples?

6. Would the availability of political risk insurance be an important factor in encouraging your company to undertake secondary or tertiary recovery projects in existing or future production operations?

7. Do you feel that OPIC's present risk insurance program is too limited financially to be of use by your company? If so, how large a project should an insurance scheme be able to cover?

8. Are the present risks defined in OPIC's program sufficient to cover all the political risks an oil company can encounter in a developing nation? If not, what else should be covered?

9. Are you satisfied with OPIC's present policy of insuring net unrecovered costs? If not, what else should be insured?

10. If a new program were only to insure a percentage of the cost of a total project, what percentage would be a sufficient incentive for your company to avail itself of the program?

11. What would you consider a reasonable rate to charge for a comprehensive risk insurance insurance program?

12. Would the availability of non-recourse bank loans (secured only by a production payment agreement and OPIC insurance) to finance part of the develop-

ment of a new field increase your company's willingness to undertake such efforts, especially in otherwise "marginal" fields?

13. If OPICs program were greatly expanded as outlined above, what percentage of your company's rejected proposals for overseas investment would, in your opinion, be approved by your company?

Senator JAVITS. There are really two issues which need to be addressed. The first question is: Are we properly dealing with OPIC's affairs in terms of the markets which it can seek and what it can do within those markets?

As to the markets, we must consider the limitation on OPIC's activities which is now united to a standard of countries in which the per capita annual income does not exceed $1,000 in U.S. dollars. There are many reasons why this is an unwise limitation, especially considering inflation and considering the fact that quite a few of the developing countries are on the road to being developed. It is precisely while they are on this road that they can benefit most from OPIC and OPIC can help them travel that road faster. They can be excellent ways in which other developing, poorer countries may, in turn, develop more quickly.

Second is whether the attributions of enterprises which will qualify for OPIC guarantees and other assistance should be devoted solely to development or whether we should add a trade aspect. This is especially important in view of the emphasis on foreign trade because of both the high prices of raw materials and the need for acquiring at least 25 percent of the raw materials used by the American industrial plants from developing countries.

This is a critical question.

The other important question is the need for OPIC in terms of small business. One of the charges made against it is that it is a facility used mainly by big business. This does not make it wrong. Big business also is critically important to the acceleration of development. But this does raise an issue of whether these bigger enterprises would be able to do it themselves anyhow and don't need OPIC.

I am confident that both questions will be answered decisively and in the affirmative—that OPIC is needed, that it has an excellent record, that it has done a fine job, and that it has a great future in terms of the job that can be done through private enterprise to accelerate development. After all, that is the American system in which we have so much faith.

I welcome the witnesses today. I thank them very much for appearing. We will hear today from panels of various parts of the Government, beginning with OPIC itself and IDCA, which is the medium through which OPIC works, because the head of IDCA, Mr. Ehrlich, is Chairman of the Board of OPIC.

Again, I thank the Chair for being so gracious and cooperative as to be presiding at these hearings.

I ask that the balance of my opening remarks be inserted into the record, Mr. Chairman, so that we may proceed with our witnesses.

Senator SARBANES. Without objection, it is so ordered.

[Senator Javits prepared statement follows:]

PREPARED STATEMENT OF HON. JACOB K. JAVITS

Mr. Chairman, since its inception as an independent agency, OPIC has been controversial. The basic debate has been over whether OPIC serves the economic development of the developing countries, as its supporters argue, or whether it only helps the multinational corporations and does not contribute to the economic development of the LDCs, as its critics contend. For me this is not a debate. Facilitating the proper activities of the multinational corporations is not something to be ashamed of. The U.S. private sector can make a significant contribution to both the development of the U.S. economy and to the economies of the developing countries if it is given the proper economic and investment climates.

Senators Ribicoff, Percy, and I have sought in S. 2186 to raise some very significant questions about the future direction of OPIC's operations. Mr. Chairman, I ask unanimous consent that a copy of the statement I made last December when I introduced S. 2186 be inserted in the record at this time.

It is time that we put OPIC in its proper perspective. While for many of us, the economic development of the developing countries is an important objective in its own right, we are faced today with a shrinking economic pie and an overriding necessity to demonstrate to the American people the direct economic benefits of economic development in the developing countries. Rather than fostering runaway plants and costing American jobs, we must demonstrate to the American people that foreign investment, especially in the developing countries, helps generate U.S. exports and, hence, U.S. jobs. This is the reason why it is critical for us in the Congress to add a trade objective to OPIC's authorization. Development and trade are not mutually inconsistent, as I hope will be demonstrated in the present set of hearings.

In addition, OPIC must do its share in helping the United States, as a national policy, to reduce its dependence on oil imports from the OPEC countries. While the most secure way for us to ensure our energy independence is to increase our energy recovery within the United States, diversifying our energy sources among many countries is also critical. OPIC has a program underway which provides insurance and guarantees for energy projects in non-OPEC developing countries, and I will want to look at this program very closely to determine whether OPIC should not be given greater authority to be able significantly to increase oil and other energy exploration in the non-OPEC developing countries.

Another important issue that we must look at very closely in these hearings is whether we can dictate, as a matter of U.S. policy, the countries in which U.S. investors should operate and, hence, OPIC should operate. Under present law, with few exceptions, OPIC cannot insure or guarantee projects in developing countries with a per capita income of $1,000 or more. This is ironic because it is these developing countries which have the investment climate for foreign investment, not the poorer countries that will continue to be the recipients of concessional official aid. OPIC cannot substitute its judgment for that of the private sector when it comes to deciding on where to invest. It can, however, provide a service that, given the proper commercial risks, may influence a U.S. investor to invest in a developing country. We cannot foreclose the OPIC program for operating in this group of important developing countries which still require political risk insurance.

Mr. Chairman, these are but a few of the issues that we will want to look at closely in these two days of hearings. We also want to confront the issues of runaway plants, of the relationship between foreign investment and trade, the need for a wider definition of political risk, and the whole institutional question of whether OPIC should remain as part of IDCA or whether it should be an independent agency. I look forward to hearing from the distinguished group of governmental and private witnesses—both pro and con—so that we can develop a comprehensive record in support of OPIC's reauthorization.

Senator SARBANES. Thank you, Senator Javits.

Senator Tsongas, did you have an opening statement?

Senator TSONGAS. Yes, Mr. Chairman.

First of all, let me congratulate you on getting the consent for this hearing.

I would like to express my support for the concept of OPIC and what it has done in its history. But, rather than go into that, I would like to express now two concerns.

First, I find it rather interesting that industry, which is basically the recipient of the value of this program, is doing absolutely nothing to support it. When it comes to issues like airbags or issues involving windfall profits or fuel efficiency—those kinds of things—I am always impressed with how efficient American industry is in terms of lobbying the Congress. But when it comes to something like this or U.S. foreign policy toward developing countries, where we have a vital interest, industry hardly seems to show itself at all. I would hope at some point that the leadership in the private sector in this country would understand that its obligation goes beyond its own particular product and is involved with these kinds of foreign policy concerns as well.

Second, as someone who always has been a strong supporter of labor—despite its nonstrong support of me politically [general laughter].

I just do not understand exactly where the labor union opposition is coming from. Given the nonparticipation by labor in OPIC, it seems to me that this is not exactly a situation of "clean hands" from their perspective. I would be very curious to see how these people can criticize a program, given the obvious trade needs that we have as a nation, not having participated significantly in the internal workings of the Corporation.

Thank you, Mr. Chairman.

Senator SARBANES. Thank you, Senator.

Mr. Ehrlich, you are the Chairman of the OPIC Board. My understanding is that you therefore have seniority. So I would ask you to begin.

STATEMENT OF HON. THOMAS EHRLICH, DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY, AND CHAIRMAN OF THE BOARD, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. EHRLICH. Thank you very much, Mr. Chairman. I appreciate the opportunity to discuss with you the reauthorization of the Overseas Private Investment Corporation and the statutory changes that have been proposed for OPIC in S. 2186.

If I may, Mr. Chairman, I will submit my prepared statement for the record and will summarize the key points.

Senator SARBANES. Without objection, your full statement will be included in the record.

Mr. EHRLICH. Thank you.

As you know, OPIC is a self-supporting U.S. Government corporation. It was established by Congress in 1969 to facilitate private investment in less developed countries, complementing the development objectives of the United States. It is led by its able President, Bruce Llewellyn, who also is here today. Policy direction is set by a 13-person Board of Directors, including 7 from the private sector and 6 from the Government.

I appear before you in two capacities—as Director of the International Development Cooperation Agency and as Chairman of the Board of OPIC.

IDCA was established by the President and approved by the Congress last year to serve as the focal point in the executive branch for the entire range of U.S. economic relations with developing countries. OPIC constitutes an extremely important element in those relations. It is a major vehicle to help accelerate development in Third World countries. It is also a significant means to enhance the U.S. private sector in general and U.S. exports in particular, thereby strengthening our country's economy and our country's balance of payments.

OPIC was included within the IDCA mandate in order to assist the Corporation in meeting its developmental responsibilities and also to provide coordinated support for it.

OPIC's statutory authority expires in September 1981. This has led within the administration and elsewhere to a very healthy reexamination of OPIC's role.

S. 2186, introduced by Senators Javits and Ribicoff, has been most useful in this regard by helping to focus the issues.

Earlier this year, IDCA convened an interagency task force on OPIC reauthorizing legislation to review the legislative needs of OPIC over the next several years and to examine particularly the proposals in S. 2186. The task force efforts were particularly useful to me, as Chairman of the OPIC Board, and to the other Board members as well in our deliberations. The task force also has laid much of the groundwork for developing an administration position on the OPIC legislative issues.

The OPIC Board of Directors considered the issues raised by S. 2186 at a meeting on May 13, and authorized both Mr. Llewellyn and me to state the positions adopted by the Board, with the understanding, of course, that those positions may be reconsidered from time to time by the Board. Through the course of this summary statement, I will indicate the Board policies as well as the administration's position.

Let me address briefly, if I may, key points on those central issues: reauthorization; adding an OPIC trade purpose; removing the $1,000 per capita GNP country restriction: and maintaining the existing OPIC relationship with IDCA.

The first issue is the most basic, the need for reauthorization.

OPIC has a unique role in linking private investment with public objectives. In a manner that protects our own domestic employment needs and also spurs our export markets, OPIC facilitates commercial development in Third World countries in a most important way, in a way that wholly is consistent with our development priorities.

It is becoming increasingly apparent that official concessional development assistance is only a small part—a very key part, but only a small part—of the total development process. Growth in trade and growth in private investment are essential for developing countries to modernize and to maintain their development momentum.

The projects with which OPIC is involved spread developmental impetus throughout the economies of those countries.

In fiscal year 1979, OPIC insured or financed 83 projects in 33 countries, all of them developing nations. More than half of those projects are in countries with per capita GNP's of $520 or less, computed in 1975 dollars.

In all, those projects are expected to create an estimated 17,000 new jobs in developing countries. The overall net positive effect on the host countries' annual balance of payments is projected to be about $148 million, as a result of the OPIC projects—an increasingly important benefit because of the effect of the oil price increases on the developing countries' economies.

Those jobs and those payments gains are not at the expense of U.S.

domestic interests. The OPIC statute prohibits involvement with a project that would lead to any significant reduction in U.S. employment by either the company making the investment or by other U.S. companies or industries. In carrying out this requirement, OPIC undertakes domestic impact analyses on each proposed project to gage fully the direct and indirect impact of the project on American industry and to prevent involvement in so-called "runaway" plants.

OPIC's activities do much more than just prevent negative domestic impact—they generate substantial economic benefit for the United States. U.S. investors abroad tend to look to American sources of supply for the materials and equipment needed to establish and operate a foreign enterprise. The cumulative value of U.S. exports for OPIC projects since 1974 is estimated at about $5.2 billion and about 120,000 man-years of U.S. jobs have been or will be generated.

The developing countries' needs for goods and needs for services will increase as their economies grow and the living standards of their people improve, and the selected investments encouraged by OPIC will be a most important factor in facilitating that growth in a manner that is consistent with U.S. development objectives.

Both because of its value as a development tool and also as a strong benefit to the U.S. economy, the administration strongly supports extension of OPIC's statutory authority through 1985, as does the OPIC Board.

Second is the addition of a trade purpose.

The current OPIC statute describes the purpose of the corporation in these words:

> To mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States.

S. 2186 raises the question of whether a trade purpose should be added to the statute.

The OPIC Board supports the addition of a trade promotion function, with the understanding that implementation of that purpose will be consistent with the OPIC development mandate. The administration does not object to the additional statutory flexibility provided by the addition of a trade purpose. The administration has not, however, made a final conclusion that it will seek that authority.

Both the administration and the Board agree that adding a trade purpose should not permit OPIC to undertake projects solely because they portend trade benefits; developmental value must continue to be the first consideration.

We also are sensitive to the need to review the trade value of OPIC projects in relation to other domestic U.S. interests. Promotion of our trade interests means promotion of U.S. exports, which also should help to serve domestic employment interests. To make very sure our trade interests and our employment interests coincide, careful review of this relationship needs to be made for each proposed project and is being made by the OPIC staff and by the OPIC Board.

One of the most important reasons for our interest in developing countries is the great role they are already playing as U.S. trade partners and the even larger role they will play in the future. Developing countries represent the fastest growing market for our own exports.

During the 1970's, U.S. sales to developing nations grew almost 50 percent faster than sales to industrialized countries. Already we export more to developing countries than we do to Western Europe and Japan combined. Achieving an appropriate blend of development and trade objectives in our various development programs is an important IDCA objective, and if a trade purpose is added to OPIC, it would fit very well within the IDCA mandate.

Next I will discuss removing the $1,000 limitation.

The OPIC authorizing legislation currently restricts the Corporation to activities in countries with a per capita income of less than $1,000, in 1975 dollars, except for categories of exceptions named by the Board. The principal categories of exceptions are currently mineral and energy projects and small business ventures. In addition, the Board can make case-by-case exceptions for projects, particularly those that have exceptional development benefits.

The OPIC Board recommends that the existing $1,000 per capita GNP statutory restriction be removed to enable OPIC to increase its support both for middle income developing countries and also for the U.S. economy. As with the addition of a trade purpose, the administration does not object at this time to the additional flexibility which is proposed in S. 2186, but has not made a final determination on the subject.

The need for increased private investment to promote development obviously does not cease as a country's per capita GNP increases. Most countries at the $1,000 per capita level have both very serious poverty in many areas of their countries and enormous needs for nonconcessional assistance. The United States does not provide these middle income developing countries with concessional aid, and greater flexibility for OPIC to support projects in those countries could provide an important and mutually beneficial aspect to our relations with those developing countries. In its dealings with projects in middle income developing countries, OPIC would continue to be bound by all the constraints applicable to all its operations, including those designed to protect U.S. employment and to avoid "runaway" ventures.

In supporting the removal of the $1,000 limitation, the OPIC Board specifically stated that it would continue its developmental thrust and would monitor the activities of the Corporation carefully to insure that the added flexibility is used in ways that are fully consistent with this developing orientation. We in IDCA will be working closely with OPIC in this monitoring, another example of the importance of maintaining the existing relationship between OPIC and IDCA.

It ought to be emphasized that even with the $1,000 restriction removed, OPIC's legislation still would require preferential consideration for projects in the poorest nations—those nations with less than $520 per capita GNP income. Numerous operating policies adopted by OPIC's Board also contain preferences for the poorest of the developing countries. None of those policies would be changed. The administration supports fully the continuation of this emphasis on lower income developing countries in OPIC's operations.

Finally I will discuss IDCA's relationship with OPIC.

Under the current structure, OPIC is a development organization which also brings about very important trade benefits. This is reflected in the President's Reorganization Plan No. 2, which placed the IDCA Director as Chairman of the OPIC Board, and Reorganization Plan No. 3, which placed the U.S. Trade Representative as OPIC's Vice Chairman. The administration and the OPIC Board both support the maintenance of that relationship.

The relationship is needed because of the importance to development of properly guided investment by the private sector. If the Director of IDCA were not the Chairman of the OPIC Board or if the OPIC statute were to be separated from the Foreign Assistance Act, both of which are proposed in S. 2186, an important degree of coordination between development programs would be lost.

The OPIC-IDCA relationship also is important because of the assistance that IDCA and the agency's other development activities can provide and are providing to OPIC. IDCA has responsibilities in all areas of development policy. It is concerned with the specific goals of bilateral development assistance, the complementary goals of multilateral assistance, and the development implications of U.S. policies in trade, monetary affairs, and other related fields. IDCA, therefore, is well placed to shape the policies to help OPIC adjust to the changing requirements of United States-developing country relationships.

There exists, for example, great potential to further the common interests of OPIC and AID, the agency that manages U.S. bilateral economic assistance. The emphasis which IDCA intends to give to involvement of the U.S. private sector in our assistance programs and in the development process in general already is creating new opportunities for cooperation between these two development organizations.

The current IDCA-OPIC institutional arrangement is important, therefore, both because OPIC's key role in our development efforts and the benefits OPIC derives from its relationship with IDCA. It would be a serious mistake to remove OPIC from the developmental context. The administration and the OPIC Board both agree that the OPIC statutory base should remain within the Foreign Assistance Act, and that the OPIC relationship with IDCA should be maintained.

The administration supports some other changes in the OPIC statute. They will strengthen the Corporation's ability to meet the needs for the kinds of investment it is meant to encourage. I will not elaborate on those amendments, but they include authority to cover losses due to civil strife, removal of the 10 percent coinsurance requirement for small businesses, and a broader definition of eligible domestic U.S. investors. Those changes also have been endorsed by the OPIC board, and are included within S. 2186.

Mr. Chairman, OPIC originally was enacted on the basic principle that concessional development assistance ought to be augmented by private commercial resources in the Third World, and that OPIC could facilitate investment wholly consistent with our development objectives and our domestic interests.

We believe that basic principle is even more valid today. We also believe that OPIC's record is an impressive one. Since 1974, its projects have involved U.S. investments in developing countries totaling some $3 billion. Those projects have helped to generate more than 120,000 man-years in U.S. employment through project-related exports, while the Corporation follows procedures to insure that its projects do not lend to the loss of other jobs for American workers.

OPIC therefore, is a key institution that links U.S. private enterprise with developmental needs in the Third World. Enormously important benefits are to be gained at both ends of that linkage.

I look forward to working with the committee, both as Director of IDCA and also as Chairman of the OPIC board in reauthorizing OPIC and in strengthening its statutory base to enable it to be as effective as possible in serving the broad mutual interests of the United States and the developing world.

Mr. Chairman, after hearing from the OPIC President, Mr. Llewellyn, I will be pleased to answer any questions that you may have.

[Mr. Ehrlich's prepared statement follows:]

Prepared Statement of Hon. Thomas Ehrlich

I appreciate the opportunity to discuss with you reauthorization of the Overseas Private Investment Corporation, and the statutory changes proposed for OPIC in S. 2186.

OPIC is a self-supporting U.S. Government corporation. It was established by Congress in 1969 to facilitate U.S. private investment in less developed countries, complementing the development objectives of the United States. It is led by its able President, Bruce Llewellyn, who is also here today. Policy direction is set by a thirteen person Board of Directors, including seven from the private sector and six from government.

As you know, Mr. Chairman, I appear before you in two capacities—as Director of the International Development Cooperation Agency and as Chairman of the Board of OPIC. IDCA was established by the President and approved by Congress last year to serve as the focal point in the Executive Branch for the entire range of United States economic relations with developing countries. OPIC constitutes an important element in those relations. It is a major vehicle to help accelerate development in Third World countries. It is also a significant means to enhance the U.S. private sector in general and U.S. exports in particular—thereby strengthening our country's economy and balance of payments.

OPIC was included within the IDCA mandate in order to assist the Corporation in meeting its development responsibilities and to provide coordinated support for it.

OPIC's statutory authority expires in September 1981. This has led within the Administration and elsewhere to a healthy re-examination of OPIC's role. S. 2186, introduced by Senator Javits and Senator Ribicoff, has been most useful in this regard by helping to focus the issues.

Earlier this year, IDCA convened an interagency task force on OPIC reauthorizing legislation to review the legislative needs of OPIC over the next several years, and to examine the proposals in S. 2186. The Task Force efforts were particularly useful to me, as Chairman of the OPIC Board, and to other Board members in our deliberations. The Task Force has also laid much of the groundwork for developing an Administration position on the OPIC legislative issues.

The OPIC Board of Directors considered the issues raised by S. 2186 at a meeting on May 13, and authorised both Mr. Llewellyn and me to state the positions adopted by the Board, with the understanding, of course, that those positions may be reconsidered from time to time by the Board. Through the course of my testimony I will indicate these Board policies.

The Executive Branch is in the proces of developing its administration-wide positions on the major legislative issues. Positions have already been developed on some of the issues: the Administration does support reauthorization of OPIC, and does support several specific legislative changes proposed in S. 2186 which will be described later in my statement, and will be discussed more fully by Mr. Llewellyn.

The Administration has not yet developed positions on two provisions in S. 2186—the proposal to incorporate a trade purpose in OPIC's statutory mandate, and the proposal to remove the restriction on OPIC's authority to operate in developing countries with a per capita GNP greater than $1,000. I want to stress, however, that since those proposals would permit greater flexibility in carrying out the OPIC program, the Administration does not at this time oppose these provisions. I also emphasize our position that whatever legislative changes are made in the OPIC statute, they should be done in such a way as to strengthen—and in no way diminish—OPIC's developmental mandate.

In keeping with the need to retain the primacy of OPIC's development function, the Administration firmly believes that it would be a serious mistake to separate OPIC from the Foreign Assistance Act and to discontinue the existing OPIC relationship with IDCA, as proposed in S. 2186. Without dissent, the entire Board of Directors also opposed these changes. OPIC provides a valuable means to promote the development of Third World countries, and this purpose should not be weakened or abandoned. IDCA can contribute to strengthening OPIC in important ways, and the opportunity to do so provided in the Reorganization Plan establishing IDCA should be allowed to take effect.

Let me address briefly some of the key points on the central issues—reauthorization, adding an OPIC trade purpose, removing the $1,000 per capita GNP country restriction, and maintaining the existing OPIC relationship with IDCA.

REAUTHORIZATION

The first issue is the most basic—the need for reauthorization. OPIC has a unique role in linking private investment with public objectives. In a manner that protects our own domestic employment needs and spurs our export markets, OPIC facilitates commercial development in Third World countries in a way that also is consistent with our development priorities.

It is becoming increasingly apparent that official concessional development assistance is only a small part—although a key part—of the development process. Growth in trade and private investment is essential for developing countries to modernize, and to maintain development momentum. A major development challenge of the 1980's is economic adjustment to changing world economic conditions. These changes include the higher costs of energy and the payments imbalances they often engender. A key part of the challenge today is to direct investment in developing countries into activities that will increase exports and reduce imports of goods those countries can produce efficiently at home.

Private investment brings to a country a "total package" of critical resources—technology, management, marketing skills, initiative, capital, and new, complementary opportunities for others—all of which are essential for development. Without the availability of adequate managerial and technical skills, the simple transfer of capital, whether by the public or the private sector, will not be effective in stimulating meaningful development. Far from being alternatives, private investment and public investment must complement each other.

The projects with which OPIC is involved spread developmental impetus throughout an economy. For example, OPIC's projects develop mineral and forest resources that diversify a nation's economy, generate employment, and pay taxes and royalties that governments can use for social investments; produce fertilizers and teach small farmers how to use them to increase their yields; process and export crops produced by small farmers, assuring them of better prices and higher production than previously; engage in development banking activities, extending loans to help hundreds of indigenous businesses and entrepreneurs expand; and increase the supply of building materials and basic consumer items required by all families.

In many cases, these same projects provide important non-wage benefits to their employees and communities, such as improved housing and medical care, scholarships for education, improved roads and access to electricity. OPIC projects contribute to the growth of national pools of skilled workers by training tens of thousands of people in such skills as accounting, mechanics, and food preservation and in such concepts as quality control and preventive maintenance. And, OPIC projects stimulate further development by creating new demands for locally produced products and services and by providing new products and services that can be utilized by others to expand or enter new businesses.

In fiscal 1979, OPIC insured or financed 88 projects in 33 countries, all of them developing nations. More than half of the projects (44) are in countries with per capita GNP of $520 or less, computed in 1975 dollars.

In all, the projects are expected to create an estimated 16,900 new jobs in developing countries. The overall net positive effect on the host countries' annual balance of payments is projected to be $148 million as a result of the OPIC projects—an increasingly important benefit because of the effect of oil price increases on LDC economies.

These jobs and payments gains are not at the expense of U.S. domestic interests. The OPIC statute prohibits involvement with a project that would lead to any significant reduction in U.S. employment by either the company making the investment or by other U.S. companies or industries. In carrying out this requirement, OPIC undertakes domestic impact analyses on each proposed project to gauge fully the direct and indirect impact of the project on American industry, and to prevent involvement in "runaway" plants. Since 1974, 63 projects have been formally rejected by OPIC on the basis that they might have caused U.S. job losses or resulted in significant negative effects on the U.S. economy.

OPIC's activities do much more than just prevent negative domestic impact—they generate substantial economic benefit for the United States. U.S. investors abroad tend to look to American sources of supply for the materials and equipment needed to establish and operate a foreign enterprise. For example, OPIC estimates that more than 60 percent of initial procurement for the OPIC projects undertaken in the past year will come from U.S. sources, with most of the remainder coming from host country sources. The 1979 projects will result in U.S. exports of nearly $1 billion over the next 5 years ($330 million in initial procurement and $637 million in follow-on procurement). The cumulative value of U.S. exports for OPIC projects since 1974 is estimated to be $5.2 billion.

Projects supported by OPIC in fiscal 1979 are expected to generate more than 16,700 man-years of U.S. employment through their first five years of operation. For all projects supported by OPIC since 1974, about 120,700 man years of U.S. jobs have been or will be generated. Additionally, because the projects help develop private sector growth in the host countries, they will generate greater demand for U.S. goods and stimulate the indirect creation of thousands more U.S. export-related jobs.

The developing countries' need for goods and services will increase as their economies grow and the living standards of their people improve, and the selected investments encouraged by OPIC will be an important factor in facilitating that growth in a manner consistent with our development objectives.

Both because of its value as a development tool and as a strong benefit to U.S. economic interests, the Administration supports extension of OPIC's statutory authority through 1985.

TRADE PURPOSE

The current OPIC statute describes the purpose of the Corporation as follows: "To mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States . . ." S. 2186 raises the question of whether a trade purpose should be added to the statute.

The OPIC Board supports the addition of a trade promotion function, with the understanding that implementation of this purpose will be consistent with the OPIC development mandate. The Administration does not object to the additional statutory flexibility provided by the addition of a trade purpose. The Administration has not made a final conclusion, however, that it will seek this authority. Both the Administration and the Board agree that adding a trade purpose should not permit OPIC to undertake projects solely because they portend trade benefits; developmental value must be the first consideration.

We are also sensitive to the need for reviewing the trade value of OPIC projects in relation to other domestic U.S. interests. Promotion of our trade interests means promotion of U.S. exports, which should also help serve our domestic employment interests. To make sure our trade interests and our employment interests coincide, careful review of this relationship needs to be made for each proposed project.

One of the important reasons for our interest in developing countries is the great role they are already playing as U.S. trade partners and the even larger role they will play in the future. Developing countries represent the fastest growing market for our exports. During the 1970's, U.S. sales to developing nations grew almost 50 percent faster than sales to industrialized countries. Already we export more to the developing countries than we do to Western Europe and Japan combined. Achieving an appropriate blend of development and trade objectives in our various development programs is an important IDCA objective, and if a trade purpose is added to OPIC it would fit well within the IDCA mandate.

REMOVAL OF $1,000 LIMITATION

The OPIC authorizing legislation currently restricts the Corporation to activities in countries with a per capita GNP of less than $1,000 (in 1975 dollars) except for categories of exceptions named by the Board. The principal categories of exceptions are mineral and energy projects, and small business ventures. In addition, the Board can make case-by-case exceptions for projects, particularly those that have exceptional development benefits.

The OPIC Board recommends that the existing $1,000 per capita GNP statutory restriction be removed to enable OPIC to increase its support both for middle-income developing countries and for the U.S. economy. As with the addition of a trade purpose, the Administration does not object at this time to the added flexibility which is proposed in S. 2186, but has not made a final determination on the subject.

The need for increased private investment to promote development obviously does not cease as a country's per capita GNP increases. Most countries at the $1,000 per capita level have both serious poverty in many areas and enormous need for non-concessional assistance. The United States does not provide these middle-income developing countries with concessional aid, and greater flexibility for OPIC to support projects in those countries could provide an important and mutually-beneficial aspect to our relations with them. In its dealings with projects in middle-income developing countries, OPIC would of course continue to be bound by the constraints applicable to all its operations, including those designed to protect U.S. employment and to avoid "runaway" ventures.

In supporting removal of the $1,000 limitation, the OPIC Board specifically stated that it would continue its developmental thrust and monitor the activities of the Corporation to ensure that the added flexibility is used in a way that is fully consistent with that developmental orientation. We will be working closely with OPIC in this monitoring—another example of the importance of maintaining the existing relationship between OPIC and IDCA.

It should be emphasized that even with the $1.000 restriction removed, OPIC's legislation would still require preferential consideration for projects in the poorest nations (less than $520 per capita GNP in 1975 dollars). Numerous operating policies adopted by OPIC's Board also contain preferences for the poorest of the developing nations. None of these policies would be changed. The Administration fully supports the continuation of this emphasis on lower-income developing countries in OPIC's operations.

IDCA RELATIONSHIP WITH OPIC

Under the current structure, OPIC is a development organization which also brings about important trade benefits. This is reflected in the President's Reorganization Plan No. 2 which placed the IDCA Director as Chairman of the OPIC Board, and Reorganization Plan No. 3 which placed the U.S. Trade Representative as OPIC's Vice Chairman. The Administration as well as the OPIC Board supports maintenance of this relationship.

This relationship is needed because of the importance to development of properly-guided private investment. If the Director of IDCA were not the Chairman of the OPIC Board or if the OPIC statute were to be separated from the Foreign Assistance Act, both of which are proposed in S. 2186, an important degree of coordination between development programs would be lost.

The OPIC–IDCA relationship is also important because of assistance that IDCA and the Agency's other development activities can provide OPIC. IDCA has responsibilities in all areas of development policy. It is concerned with the specific goals of bilateral development assistance, the complementary goals of multilateral assistance, and the development implications of U.S. policies in trade, monetary policy, and other related fields. As such, IDCA is well placed to shape the policies that help OPIC adjust to the changing requirements of U.S.-developing country relationships.

There exists, for example, great potential to further the common interests of OPIC and AID, the agency managing U.S. bilateral economic assistance. The emphasis which IDCA intends to give to involvement of the U.S. private sector in our assistance programs and in the development process in general will create new opportunities for cooperation between these two development organizations.

One illustrative set of those opportunities is represented by the Reimbursable Development Program, currently part of AID—though I expect to shift it to become a separate unit within IDCA in order to strengthen it further. RDP can contribute to OPIC directly through financing feasibility studies under Section 661 of the Foreign Assistance Act that may involve OPIC insurance or guarantees of the U.S. investment that results. More important, OPIC, RDP, and in some cases AID programs should work in tandem to promote U.S. trade and development interests in developing countries, particularly those in a stage of rapid development.

RDP and OPIC already have a productive relationship. RDP officers often meet with OPIC officials to discuss projects of mutual interest. Our hope is that some RDP studies will lead to joint ventures with at least partial project financing and insurance coming from OPIC. Also under consideration is RDP financing for pre-investment studies in some areas. Cooperation also takes place at the country level. In Morocco, for example, RDP is paying for the translation into English of French language feasibility studies and the revision of accounting texts to follow U.S. accounting methods. These efforts will allow an OPIC investment mission to Morocco to proceed. In addition, the Director of RDP and the President of OPIC meet regularly to discuss new areas of cooperation between the two organizations.

In order to underscore and strengthen this relationship, we hope to promote the exchange of personnel and joint training programs involving OPIC, RDP, and AID.

IDCA can also play an important role in resolving policy issues that influence OPIC. One example is the relative roles in Latin America of OPIC and the Inter-American Development Bank concerning investment insurance and guaranty activities in the field of petroleum and minerals. Another is the possibility of reducing the constraints on OPIC programs that arise from the lack of agreement between the United States and the Andean Pact countries on arbitration and choice-of-law issues. At the same time, IDCA can be an advocate for OPIC within the Executive Branch on a wide range of questions and concerns.

The current IDCA–OPIC institutional arrangement is important, therefore, because of both OPIC's key role in our development efforts and the benefits OPIC derives from its relationship with IDCA. It would be a serious mistake to remove OPIC from the developmental context. The Administration and the OPIC Board agree that the OPIC statutory base should remain within the Foreign Assistance Act, and that the OPIC relationship with IDCA should be retained.

OTHER CHANGES

The Administration supports several other changes in the OPIC statute. They will strengthen the Corporation's ability to meet the needs for the kinds of investment it is meant to encourage. I will not elaborate on those amendments, but they include authority to cover losses due to civil strife, removal of the 10 percent coinsurance requirement for small businesses, and a broader definition of eligible domestic U.S. investors. These changes have also been endorsed by the OPIC Board, and are included in S. 2186.

One other matter concerning S. 2186 deserves brief mention. The bill would delete the current provision in Section 231 of the Foreign Assistance Act by which the Secretary of State is to provide "policy guidance" to OPIC. We believe the statute should state explicitly that the Corporation is to receive foreign policy guidance from the State Department and development policy guidance from IDCA, although both points are inherent in the overall responsibilities of the two agencies. Similarly, the required concurrence of the State Department and IDCA for bilateral agreements entered into by OPIC should be retained as in current law.

CONCLUSION

OPIC was originally enacted on the principle that concessional development assistance must be augmented by private commercial resources in the Third World, and that OPIC could facilitate private investment consonant with our development objectives and our domestic interests.

We believe that principle is even more valid today. We also believe that OPIC's record is impressive. Since 1974 its projects have involved U.S. investments in developing countries totaling $3 billion. Its projects have helped to generate more than 120,000 man years in U.S. employment through project-related exports, while the Corporation follows procedures to ensure that its projects do not lend to the loss of other jobs for American workers.

OPIC is a key institution linking U.S. private enterprise with developmental needs in the Third World. Important benefits are to be gained on both ends of that linkage. I look forward to working with the Committee, both as Director of IDCA and as Chairman of the OPIC Board, in reauthorizing OPIC and in strengthening its statutory base to enable it to be as effective as possible in serving the broad mutual interests of the United States and the developing world.

Senator SARBANES. Thank you, Mr. Ehrlich.

Mr. Llewellyn, we are pleased to hear from you now.

STATEMENT OF HON. J. BRUCE LLEWELLYN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. LLEWELLYN. Mr. Chairman and members of the committee, I welcome this opportunity to express OPIC's views on the Javits-Ribicoff bill, S. 2186.

Even though OPIC's operating authorities do not run out until September 1981, it is timely for you to begin these oversight hearings on OPIC. You will recall that during the last legislative renewal, our operating authorities lapsed for 4 months. Therefore I am glad to have an early start on our next legislative renewal.

I have submitted an extensive statement relating to the legislative proposals in the Javits-Ribicoff bill and OPIC's operations since the last oversight hearings of this committee in 1977.

With your permission, I would like to enter the statement into the record and give you a brief summary.

Senator SARBANES. Without objection, it is so ordered.

Mr. LLEWELLYN. Mr. Chairman, OPIC's roles in the 1980's are outlined in the statement which I have submitted. The statement reviews the serious economic conditions affecting the developing nations. Oil price increases and the slowing of the growth of global economies have combined to increase enormously these countries' capital needs.

Meanwhile, official aid from many developed countries, including the United States, has not increased.

Now, more than ever before, it is essential for the United States to harness private sector funds, skills, and energies to sustain the development process in the developing world and, by so doing, to further many of our national policy objectives.

OPIC's programs provide one of the few tools available to the U.S. Government to encourage U.S. citizens to make developmental investments in the Third World. I am convinced that OPIC's services are important to the investment decisions and that U.S. investment contributes in many important ways to development as well as to the strengthening of our economy.

I am aware that the major criticism leveled against OPIC and against overseas investment in general is that such investment exports U.S. jobs. While some investments may do this, these are not supported by OPIC. Let there be no mistake about what OPIC's U.S. policy on jobs is. No matter how favorable the developmental impact of a proposed project may be, OPIC will not back it with an assurance of financing if it will result in a significant loss of jobs here at home. That is the standard practice grounded in good sense and in legislative instruction.

In my prepared statement I have outlined the main features of OPIC's operations since the committee's review in 1977. OPIC's financial situation continues to be sound. When OPIC started operations in 1971, it recorded gross revenues of $29 million. For 1979, our revenues were $68 million. The 1979 net income after expenses was a record $58 million, an increase of 10 percent over fiscal 1978.

At the end of fiscal year 1979, OPIC had cash and U.S. Government securities amounting to over $507 million, an increase of 14 percent over the prior year. Combined insurance and guaranty reserves increased by $135 million, to more than $519 million. These reserves back up OPIC's insurance and guaranty obligations and have permitted us in the past to honor our obligations without cost to the U.S. Treasury.

During the last 2½ fiscal years, OPIC has insured or financed 213 U.S. investment projects in 51 developing nations. Total investment in these projects should exceed $2 billion. During their first 5 years of operation, these projects are expected to bring to their host countries 43,500 new jobs, annual net foreign exchange benefits of $707 million, and annual local tax revenues of $186 million. It is anticipated that these projects also will directly generate over $2 billion of U.S. exports. This means 37,000 added man-years of U.S. employment.

OPIC has developed or significantly expanded a number of its programs in the past 2½ years. Our energy program provides coverage for investments in the exploration, development, and production stages of petroleum projects.

To date, $352 million of insurance has been issued on energy investment alone. The participants are small exploration companies, large integrated oil companies, and U.S. farmer cooperatives. We are now in various stages of negotiation with 32 other companies planning energy projects.

OPIC now offers insurance coverage against wrongful drawing of unconditional letters of credit posted as bid, performance, and advance payment guaranties. Many other industrialized nations provide their contractors with these guaranties, and they often are required for construction and sales contracts. Without comparable facilities, American contractors have been at a competitive disadvantage. They must include in their bids a large amount for self-insurance and run the risk that an unjustified drawing could involve catastrophic economic loss.

Only a limited amount of private insurance for this risk is available, essentially from Lloyds of London, and the rates generally are high. OPIC developed this program to help U.S. contractors maintain their competitive position. OPIC has, to date, sold letter of credit coverage totaling over $47 million.

OPIC recently initiated a new program to finance the establishment or expansion of overseas distributorships for U.S.-made machinery and equipment. These distributorships further less developed countries development by providing the capital and equipment local farmers and other businesses need along with training of local personnel in mechanical and other technical skills. But they also expand the competitiveness of U.S.-made products in local markets by providing expanded inventory capacity and, after the sale, we pay our maintenance services.

The full statement before you reports on OPIC's compliance with the major directives given to OPIC in the 1978 legislation. These involve five principal mandates:

First is restricting OPIC's operations in countries with per capita incomes in excess of $1,000 and giving preferential consideration to projects in countries with per capita incomes of under $520; second is improving OPIC's developmental analysis of projects; third is improving small business participation in OPIC programs and restricting certain programs only to small businesses; fourth is refusing OPIC assistance to any investment likely to cause a significant reduction in U.S. employment; and fifth is making OPIC programs subject to the human rights provisions of the Foreign Assistance Act.

OPIC is proud to report that it has met all of these mandates. However, I must be frank and report that the country restriction imposed upon OPIC by the 1978 legislation has had a negative effect on OPIC's ability to assist U.S. private investment abroad.

OPIC's insurance activity has been reduced by one-third. If the dollar figures were corrected for inflation, the reduction would be even more significant.

OPIC has formally rejected more than 70 proposed projects in higher income countries due to this restriction, not to mention inquiries over the phone, Mr. Chairman, which we out of hand turn down.

Along with the reduction in the volume of insurance business, there is a necessary reduction in income potential. Furthermore, the restriction hurts American labor and the American farmer. The projects that OPIC selectively encourages help American workers and farmers to complete in foreign markets.

If OPIC is not able to offer its programs to help American business enter these important growing markets, business opportunities may be lost to foreign companies actively supported by their national counterparts to OPIC.

In summary, the $1,000 per capita restriction has resulted in one, no noticeable increase in OPIC's ability to encourage investments in the poorest countries; two, a reduction in our ability for further development in the higher income developing countries; three, a reduction in our ability to encourage developmental projects that also benefit the United States by increasing our exports; and four, making OPIC less financially strong than it otherwise could be.

Mr. Chairman, the Javits-Ribicoff bill, S. 2186, has provided the administration with an opportunity to focus upon the legislative needs of OPIC for the 1980's. Earlier this year, Mr. Tom Ehrlich, who is the administration spokesman for development matters and also OPIC's Chairman of the Board, convened an interagency task force to study the provisions of the Javits-Ribicoff bill. It recommended that OPIC's Board adopt certain provisions and reject others. On May 13 of this year, OPIC's Board took the formal position on the legislative proposals contained in the Javits-Ribicoff bill which I will have described in my statement.

Let me now summarize the Board's position.

The OPIC Board supports the removal of the $1,000 per capita restriction that is contained in the Javits-Ribicoff bill. As I stated earlier, the reasons are, first, the restriction prevents OPIC from performing an important development role in middle- and upper-income developing countries which continue to have substantial development needs. Second, removal of the restriction will permit OPIC, a financially self-sustaining agency, to increase its volume of business, thereby increasing its revenues. Third, removal would permit OPIC to spread its portfolio of insurance and financial obligations more broadly than presently possible. Fourth, removal of the restriction will permit OPIC to fully realize its potential in carrying out a trade function in the over-$1,000 per capita income countries.

I want to make it clear through all this, however, that the removal of the $1,000 per capita income limitations in the country restrictions will in no way change OPIC's policies or legislative mandate to give preferential consideration to projects in the poorer developing countries.

The Javits-Ribicoff bill would assign OPIC a trade function that would formally recognize the role that OPIC can play to increase U.S. exports, improve our economy, and strengthen our communities.

The OPIC Board supports an explicit trade function for OPIC in addition to our ongoing development function. Such a statutory change would give OPIC the authority it needs to stimulate development projects which will have beneficial trade effects, overcoming past legislative and administrative policies which minimized OPIC's role in export promotion.

The 4-year extension of OPIC's authority to issue investment insurance and guaranties to September 30, 1985, is supported by the OPIC Board. The OPIC Board does not favor the proposal to remove OPIC's enabling legislation from the Foreign Assistance Act or to change our present relationship with IDCA.

The OPIC Board supports the proposal in the bill to amend OPIC's present statute to permit insurance on losses due to civil strife. The Javits-Ribicoff bill would amend the OPIC statute to remove the 10-percent coinsurance requirement for small businesses. This gives preferential treatment to small investors and OPIC's Board supports that.

The Javits-Ribicoff bill proposes liberalization of the definition of eligible investors contained in OPIC's present statute. The OPIC Board supports this change insofar as it relates to U.S. entities but would not support a change of the definition for foreign entities.

Since OPIC expects its present authorities to be sufficient through 1985, the OPIC Board would not seek an increase in the levels of insuranace and guaranty authorities as proposed in the bill.

We very much appreciate the initiative taken by Senators Javits and Ribicoff in proposing the extension of legislation for OPIC. We hope it will be possible to move ahead quickly with the full consideration of legislation by both the House and the Senate, not only to fulfill the Senators' expectations, but also to avoid a temporary closing down of the program as was necessitated in 1978.

I pledge my cooperation and commitment to work with the Congress in this matter.

Thank you very much, Mr. Chairman.

[Mr. Llewellyn's prepared statement follows:]

PREPARED STATEMENT OF HON. J. BRUCE LLEWELLYN

Mr. Chairman and members of the committee: I welcome this opportunity to express my views on the proposed legislation (S. 2186) relating to the Overseas Private Investment Corporation ("OPIC"), introduced last December by Senator

Jacob Javits and Senator Abraham Ribicoff. Even though OPIC's investment insurance and guaranty authorities do not expire until September 30, 1981, it is particularly timely for your Committee to begin its oversight hearings on OPIC. You will recall that the last time OPIC appeared before Congress, final legislation was not enacted until fully ten months after introduction of the Administration bill—during which time OPIC's operating authority to assist American businesses lapsed for almost four months. I am therefore happy to get a head start this time.

Earlier this year, Thomas Ehrlich, who is both Chairman of OPIC's Board of Directors and Director of the United States International Development Cooperation Agency ("IDCA"), convened an interagency task force of interested U.S. Government departments and agencies to study the provisions of the Javits-Ribicoff Bill and other legislative proposals relating to OPIC programs. The recommendations of the task force were conveyed to OPIC's Board and on May 13, 1980, OPIC's Board adopted a resolution relating to all major legislative proposals; a copy is attached as Exhibit A. I am informed that the Administration has no objection to the Board's position.

In addition, I wish to explain to you the role that OPIC can play in the 1980s in the economic development of developing countries and in contributing to an increase in U.S. exports to such countries. I will also give you an update on OPIC's operations since the last oversight hearings in 1977 and explain how OPIC has met the mandates of the 1978 legislation.

NEED FOR OPIC IN THE 1980'S

Introduction of the Javits-Ribicoff Bill is a significant indication of growing concern over our future relationships with the more than 100 nations of the developing world and our own ability to remain competitive in the world marketplace during the 1980s.

The United States has an established commitment to foster economic and social progress in the less developed countries. Historically, foreign assistance has been largely provided through concessional aid, but the requirements of the developing world have reached a level where public funds are no longer sufficient to do the whole job and no foreseeable increase in public assistance can come close to meeting the needs. The developing countries, therefore, must look to private investment for capital resources, and the acquisition of productive technology, on-the-job training and management skills to accelerate progress toward economic and social maturity.

Reliance on imports, particularly petroleum, and sky-rocketing oil prices of the 1970s have left many of these nations deep in debt and unable to create jobs and provide better social services for the poor. The solution will lie in their ability to develop what natural resources they have and to build private sector enterprises which will lessen their dependence on outside sources.

Faced with growing needs, rising debt and a decline in government-to-government assistance not only from the United States but other industrialized nations as well, more and more developing countries have recognized the need to attract the kind of foreign investment that will create jobs, generate tax revenues, create products for domestic use and export and provide training in new skills and techniques.

But the developing nations are not the only ones facing problems during the 1980s. The United States, once undisputedly ranked as the world's greatest trading nation and accounting for nearly one-fourth of total world exports, has experienced a steady decline in its trade position. In just ten years we dropped from first to sixth among the major trading nations and unless we plan ahead to capture our share of the markets of the 1980s the skid will continue.

This is precisely what the legislative proposals before us today take into account because they recognize the relationship of two needs. The developing countries need the capital, management and expertise that the U.S. business community has traditionally produced; the U.S. business community needs the opportunities that the developing world presents.

The fact of the matter is that these very nations which face such difficult problems present our greatest opportunity. In 1969 they were a minor factor in our trade picture, accounting for only about $10 billion of our exports. Just 10 years later, however, they had become collectively our most significant trading partner and their annual consumption of U.S. exports had reached more than $60 billion. This is more than our combined exports to both Western and Eastern Europe and it is just a beginning, for the developing countries will need more as their economies grow and mature. To foster their continued growth is, therefore, very much in the national interest. And make no mistake—if we fail to take advantage of these opportunities to enhance our trade position with the developing world, our competitors from the other industrialized countries will seize them.

The opportunities in the developing world are great but so are the risks, and no U.S. business firm can approach overseas investment without considering the political risk factor. Today's world offers all too many examples of how important a factor this is. Iran, Afghanistan, Nicaragua and El Salvador all serve to remind the potential investor that doing business abroad is not the same thing as starting a new enterprise in the United States. In short, political volatility, unfamiliar surroundings, languages barriers, cultural differences and economic uncertainty all add up to disincentives which may cause deferral or cancellation of investment plans. The obvious answer to the problem is an investment incentive program that will reduce the risks by providing protection against some of them and by providing some financial assistance to projected investments. In recognition of this solution to the problem, the other industrialized countries have instituted investment incentive programs similar to that of the United States. The U.S. program is already in place in the form of OPIC's political risk insurance and finance services. A few private sector insurance companies offer a limited amount of political risk coverage but they only write short-term policies (one to two years), usually at rates far higher than OPIC's and do not cover against one of the primary political risks—loss due to war, revolution or insurrection. Unless the U.S. Government continues to make available adequate incentives through a program such as OPIC's, we could well lose the market race of the 1980s and our trade position will continue to deteriorate.

As we consider the potential opportunities and the need for opening new markets abroad however, we should consider the major criticism levelled at overseas investment—that it exports U.S. jobs. While there are instances in which companies set up overseas operations to exploit cheaper labor costs and then bring products back to the U.S. to undersell the competition, OPIC is highly selective and does not support such projects. The general argument that foreign investments should not be encouraged because some would harm the United States do not apply to OPIC because OPIC's selective programs support only those projects we know will not adversely affect this country. In fact, the great majority of OPIC projects significantly benefit the United States.

As you know, OPIC not only analyzes every potential investment in light of the developmental benefits it will bring to the host country but also as to its effects on the U.S. economy, particularly in relation to our domestic job market. We do not support runaway projects, nor will we provide assistance for any enterprise which might have a significant negative impact on the U.S. job market. Those projects which would have a significant negative effect on the U.S. economy are rejected in the early stages of inquiry. In fiscal 1979 OPIC formally rejected eight projects, including a proposed electronics facility, several textile projects and a footwear operation, while others were discouraged prior to registration. Since 1974, OPIC has formally rejected 63 projects which might have caused job loss or produced significant negative effects on the U.S. economy. Many other investors in potentially harmful projects have been discouraged from even applying to OPIC. Far from being an enemy of the American worker, OPIC is protecting and creating U.S. jobs. We also are helping the American wage earner by stimulating mineral and fuel production. Attached to my statement as Exhibit B are some specific examples of OPIC projects that have helped to create U.S. jobs.

Mr. Chairman, I would point out that OPIC must gear its operations to the needs and opportunities of two major constituencies. One is the developing world of some 100 nations in which OPIC operates (see OPIC's country list attached as Exhibit C), some of which have made spectacular progress, some of which are gaining momentum, and some of which are virtually starting from scratch. All have in common the need to attract the kind of foreign investment that will create jobs, transfer skills and lessen dependence on expensive imports.

Our other constituency is the U.S. business community which must seek new outlets and opportunities, not just domestically but in the international arena as well. In oversimplified terms, it is OPIC's job to build bridges between these two constituences; to match the needs of the developing country with the enterprise of the U.S. company so that mutual benefits result. Investment is a two-way street and if we rise to the challenges of the 1980s we can make important strides toward building a more prosperous world for all.

REPORT ON OPIC OPERATIONS

A. Investment encouraged

During the past two and one-half fiscal years since OPIC's last appearance before this Committee, it has insured or financed 213 investment projects in 51 developing countries. Total investment in these projects is expected to be over $2 billion. OPIC's participation in these projects includes an aggregate of $609 million of investment insured, $166 million in investment guaranties and $11.2 million in direct loans. In addition, OPIC provided investment survey grants totalling almost $2 million for 35 potential projects. I should note that this two and one-half year period included the four-month hiatus in OPIC's operating authority, during which time OPIC was unable to issue investment insurance or guaranties.

Projections received from the investors in these 213 projects for their first five years of operation indicate that the projects will directly result in an estimated 43,500 new host country jobs. The overall annual net foreign exchange benefits for the host countries involved are estimated at $707 million, and in addition, the projects are expected to generate annual local tax revenues of $186 million. Host country investors had at least half of the equity in more than 40 percent of the projects.

Investment by American businesses in projects in developing countries not only promotes host country development, but also contributes to the growth of the U.S. economy. The 213 projects supported by OPIC during the past two and one-half fiscal years are expected to generate over $2 billion in direct U.S. exports during the five-year period after start-up. This means more than 37,000 added man-years of U.S. employment. In order to protect the domestic labor force OPIC continues to screen all projects and rejects those considered to be potential "runaway" operations or otherwise seen as harmful to employment levels in the relevant sector of the U.S. economy.

Attached as Exhibit D are a number of charts and graphs relating to OPIC operations.

B. New OPIC programs

Since this Committee is quite familiar with OPIC's insurance and financing for traditional forms of equity and loan investments, I will not speak on this subject. However I would like to bring you up to date on a number of new or revised programs, utilizing both insurance and finance authorities, which have been developed or significantly expanded since OPIC's last oversight hearings.

1. *Energy projects.*—Over the last two and one-half years, OPIC has significantly expanded and improved its program of political risk insurance and financial services for U.S. private investment in the exploration, development and production stages of energy projects. When introduced, the new petroleum program constituted a radical departure from OPIC's previous activities in this sector and was based on both the need for the development of energy resources in the less developed countries and the U.S. strategic interest in developing alternative sources of petroleum. This OPIC program is available in the non-OPEC countries in which other OPIC programs operate. Although particular emphasis has been placed on petroleum projects, coverage is also available for geotherml projects and other non-petroleum full projects.

To ensure that the scope and availability of the new programs are well known to potential users, OPIC has spent considerable time and effort over the last two and one-half years publicizing its hydrocarbon program through meetings with energy companies and financial institutions, a nationwide series of seminars (New York, Houston, Los Angeles, Denver, Miami, Chicago and Washington), and substantial press support. Special attention has been given to working in concert with the World Bank and the International Finance Corporation.

To date, insurance contracts totaling $352 million have been issued to 8 companies and financial institutions on investments in 5 projects in 5 different countries. These projects range from a pure exploration project (Jordan) to exploration, development and production projects (Ghana and Egypt). One project involves only development and production (Greece). In another case, OPIC assistance was provided for the expansion of an existing oil field (Pakistan). The project sponsors range from small exploration companies to large integrated international oil companies and have included companies and cooperatives with no foreign exploration or production experience. In each case, with the exception of Egypt, the host countries have been net petroleum importers, a large portion of whose imports and balance of payments deficits derive from energy imports.

In the case of the Ghanaian project, the major portion of the petroleum will provide the project sponsors—a consortium of U.S. farm cooperatives—with an assured supply of feedstocks for a portion of the requirements of their U.S. refineries. The crude oil will be refined into fuel and then made available to the cooperatives for distribution to their members throughout the United States. Last year, the project paid a royalty of 32,000 barrels of oil and over $1 million in cash to the Government of Ghana. In addition, the Government was able to buy 224,000 barrels of oil from the project at spot prices.

The developmental aspects of the Greek project are also impressive. It is estimated that production will reach 25,000 barrels a day, nearly 5,000 barrels of which will be available to the Government of Greece under a production-sharing agreement. The market value of this portion of the crude will amount to over $53 million on an annual basis at a price of $30 a barrel. The Pakistani project represents a doubling of production from 8,500 barrels a day to 17,000 barrels a day, all of which will remain in Pakistan, resulting in a net foreign exchange savings of nearly $100 million per year.

OPIC is currently in various stages of negotiation on 76 energy projects registered by 32 different companies interested in projects in 32 different countries. This represents a registration increase of nearly 50 percent during the last six months. These projects would involve several billions of dollars of new investments in LDC petroleum projects. The sponsor companies represent a broad mix, ranging in size from small to large.

From the outset, it has been OPIC's position that the newly expanded energy program would be made most effective by ensuring that the tenets of the new program respond to the concerns of the industry. Consequently, the coverage has been developed flexibly with significant contributions from industry.

Several major aspects of the insurance program as originally established were modified so that the program would provide cost-effective coverage to potential users and thus be an effective incentive to energy projects.

In addition, when OPIC's new petroleum coverage was first introduced, project and country limits were set at $50 million and $100 million, respectively, in order that petroleum risks could be diversified as evenly as possible throughout OPIC's portfolio. As experience has been gained, those limits have been increased to $75 million and $150 million, respectively. Limits could be increased to about $125 to $150 million and $300 million, respectively, and still comply with the Congressional requirement that OPIC operate on a self-sustaining basis and with due regard for principles of risk management.

OPIC continues to review its program and to consider additional changes deemed desirable to make the program more attractive to potential users.

2. *Minerals and mining projects.*—After several quiescent years in the mineral sector mirroring the general downturn in LDC mineral projects, OPIC has experienced significant new activity in this sector in the last 18 months. The Freeport Minerals project in West Iran, Indonesia, has been the beneficiary of both OPIC political risk insurance and loan guaranty programs in the last year for a significant expansion of the project. OPIC has also played a key role in the establishment and expansion of the Selebe-Pikwe project in Botswana. Because of the project, Botswana will become a significant exporter of ferro-nickel matte (exports to the U.S. are projected at $140 million for 1980). The matte is being processed at a facility in Port Nickel, Louisiana, which had been closed since the Cuban Revolution. The reopening of the facility to process the Botswana matte resulted in the creation of 600 new U.S. jobs. In addition, OPIC drafted a new form of war risk coverage (coverage against loss resulting from war/revolution/insurrection acts which take place in any of the 9 surrounding countries) for the institutional lenders to the project, which provided them with sufficient protection to justify their making a further $25 million commitment to the project at a time of financial crisis.

More recently OPIC has become involved in strategic minerals through an $8 million insurance contract issued to Chase Manhattan Bank for a loan to Nchanga Consolidated Copper Mines, Ltd. ("NCCM") in Zambia to increase its cobalt production substantially. In addition, OPIC guaranteed a $30 million loan by the Irving Trust Company to NCCM for working capital purposes. A requirement of the loan guaranty was that 50 percent of the company's current cobalt production be offered first to the American market for a six-year period, thus giving the United States assured access to a portion of the cobalt produced by the project. Another project for cobalt financing in Zambia is under discussion.

As private sector interest in LDC minerals investments improves, OPIC expects to see its assistance to such projects increase. Potential investors have already expressed interest in obtaining OPIC political risk insurance for titanium, phosphate and abrasive projects. To create a favorable climate for investment decisions, OPIC will approach these projects with the flexibility necessary to provide appropriate protection and financial suport.

3. *Letter of credit guaranty insurance.*—American contractors bidding on overseas contracts are increasingly called upon to post unconditional demand letters of credit, bonds, and bank guaranties as bid guaranties and, if successful in obtaining the contracts, as performance, advance-payment, and retention guaranties. Such guaranties can be drawn upon by the beneficiary owner without having to provide any evidence that the contractor has defaulted on contractual obligations. This means that the owner—in most cases a foreign government—may draw upon such guaranties or cause them to be driven upon arbitrarily, without business justification.

Most industrialized foreign countries provide their contractors with such guaranties. As a result, competing foreign contractors usually have had a bidding advantage over American contractors. American contractors have had to price their bids to include a large amount for self-insurance, making it extremely difficult for them to remain competitive. And because such a drawing could involve a catastrophic loss to the contractor, U.S. firms have had to pass up attractive overseas business opportunities.

Many of the opportunities available to U.S. firms overseas are funded or facilitated by U.S.-assisted international financial institutions, by AID, by the Department of Agriculture, or, indirectly, by U.S. purchases of oil. Therefore, it is appropriate for the U.S. Government to help its contractors (and their employees, suppliers, and subcontractors) recover some of this money by helping to place them on a more equal footing with non-U.S. firms.

The private insurance market is not normally a satisfactory alternative for the contractor who wishes to insure against the risk of an arbitrary drawing of a guaranty. Such insurance, offered principally by Lloyd's, is of limited availability and the rates (roughly 2 to 5 percent) are such that the insurance does not permit the contractor to bid competitiveiy.

Therefore, in March 1979, OPIC began insuring contractors against the risk of arbitrary drawings of unconditional demand guaranties. As a result, American contractors have been able to compete for overseas jobs which they previously would have bid on less aggressively, or passed up. So far under this new program, OPIC has issued policies totaling $47,443,525.

The majority of the contractors insured under this program have been small construction and engineering firms. In addition, when large contractors have been insured, the smaller contractors who served as subcontractors and the small manufacturers and other businesses which supply the large contractors have received work which otherwise would have been lost. As a result, substantial benefits have accrued both to the OPIC-insured contractors and to their employees, subcontractors, and suppliers, thus benefiting our economy and balance of payments.

OPIC insures contractors' unconditional guaranties only if the underlying projects benefit the receiving country's economic and social development, and will not have any significant adverse impact on U.S. employment.

4. *Private voluntary organizations and LDC cooperatives.*—A new program which OPIC has undertaken ensures that its activities benefit a broad spectrum of the poorer people in a number of developing nations by providing assistance to private voluntary organizations. While agricultural processing, fertilizer, and similar types of projects generally provide modest credit and technical assistance to their small farmer suppliers or customers, many small entrepreneurs and others are outside the scope of these projects, and all too often these people have no access to credit from traditional lending institutions. Consequently, OPIC has provided financial assistance to two private voluntary organizations which provide not only credit but financial management advice to small farmers and entrepreneurs, helping them to expand their activities and to gain the experience necessary to enter the traditional credit system. OPIC has also extended financial assistance to a local cooperative in Ecuador enabling it to provide improved credit facilities to its members. OPIC will continue to search out and assist additional projects which can broaden the base of participation in the credit structure.

5. *Distributorships.*—OPIC has recently initiated a new program to assist in the establishment or expansion of overseas distributorships for U.S.-made machinery and equipment. These distributorships will not only further development by training local personnel in mechanical and other technical skills, but will expand the competitiveness of U.S.-made products in local markets by providing essential after-the-sale repair and maintenance services. Initial industry response to this new program has been most enthusiastic. OPIC has already committed itself to financing its first distributorship and is currently negotiating as to loans for three additional distributor projects.

C. Claims experience

As of May 31, 1980, OPIC and its predecessor, AID, had settled 101 insurance claims for a total of $366.5 million (61 for inconvertibility, 29 for expropriation and 11 for war, revolution, or insurrection). Ninety-one of these claims, involving $362.7 million, have been settled by OPIC since its establishment in 1971. Of the 18 claims denied, only 5 have been submitted to arbitration by the investors.

Since the first payment to an insured investor was made in 1966, $128.7 million has been paid in cash, and an additional $84.9 million has been provided through the sale to third parties of OPIC-guaranteed host government obligations. Of the remaining $152.9 million settled, $144.9 million is represented by host government installment compensation notes payable to investors, payment of which has been guaranteed by OPIC. In addition, OPIC has provided an indemnity against loss to one investor for a potential liability of up to $8 million.

Of the total $128.7 million in cash settlements paid by OPIC, $60 million and some interest has been recovered through compensation by host governments and the disposal of acquired assets. An additional $43.4 million in principal recoveries is anticipated, primarily from fixed obligations recognized by host governments. There have been no repudiations or defaults on any OPIC-guaranteed host government obligations, although certain obligations were rescheduled as part of Chile's general external debt rescheduling. Detailed lists of claims resolutions are attached as Exhibit E.

Although publicity on the OPIC claims experience has focused on expropriation, I would like to note that OPIC has settled over twice as many inconvertibility claims as expropriation claims. In the past 12 months alone, OPIC has settled by cash payments 24 inconvertibility claims for a total of $13,330,132, with an average claim settlement of $555,422. OPIC inconvertibility coverage enables an investor to repatriate dollars from a foreign enterprise.

OPIC's role in facilitating investment dispute settlements is strengthened by its corporate organization, and its institutional authorities and expertise. A critical element is that OPIC assumes—and foreign governments perceive OPIC to assume—a technical as opposed to a political perspective with respect to investment disputes. This approach tends to avoid inflaming nationalist passions and its shifts negotiations into the hands of legal and financial technicians.

Thus, the OPIC approach to claims matters (and in the term "claims matters" we include situations in which compensable losses may not have occurred) is to establish a flexible, working relationship between insured and insurer permitting alternative forms of resolving disputes so that the most advantageous route can be pursued. This permits the investor to investigate any form of settlement with the host government or a new arrangement with the host government for continuing operations. Through close consultations between OPIC and the investor, these avenues can be pursued without prejudice to the investor's insurance rights. We also know that situations can arise where the investor may wish to sell an investment, either to the host government or a private party, for an amount less than its insurance coverage without foregoing potential insurance rights for the difference. Under appropriate circumstances, OPIC can permit this.

The Committee may be interested in OPIC's exposure in projects in Iran and Afghanistan. OPIC's total expropriation exposure in Iran is $45,322,735; inconvertibility exposure is $58,291,735. Eighteen investors are covered, three of which have filed expropriation claims aggregating $5,980,328. A fourth investor has filed a claim for approximately $400,000 based upon currency blockage. In Afghanistan, four investors are covered by OPIC, with total expropriation exposure of $336,230 and inconvertibility exposure of $436,230. Two investors have indicated potential claims, which, if filed, would involve $254,515.

D. Financial condition

Fiscal 1979 was a year of record performance for OPIC in revenues, earnings and reserves. Administrative costs were carefully controlled, and we achieved a significant milestone with the issuance of an unqualified opinion by the Comptroller General on OPIC's 1979 financial statments. Thus, OPIC has continued to operate on a self-sustaining basis and closed the fiscal year in the strongest financial position since its inception.

Gross revenues for the fiscal year ended September 30, 1979, reached a new high of $67.7 million (see Exhibit F), an increase of $7.2 million or 12 percent compared to the previous year. Administrative costs declined to less than nine percent of gross revenue, and net income after operating expenses was a record $58 million, an increase of $5.3 million or 10 percent over 1978.

During the year, OPIC paid $7.2 million in the settlement of 11 insurance claims and collected $20.8 million in recoveries from host governments on previous claims settlements.

At year end OPIC's strong financial condition was reflected by: (A) total assets of $603 million, with an increase of $128 million from year end 1978; (B) cash and investments of $507 million, with an increase of $64 million; (C) capital and reserves of $584 million, with a 30 percent increase.

With respect to exposure, investment guaranties at risk decreased by 25 percent to $92 million. Management's estimate of maximum potential exposure to insurance claims, prior to reinsurance, remained unchanged at $3.2 billion. The $123 million increase, to $634 million, in funds available for claims payments (see Exhibit F) has greatly enhanced OPIC's capacity to discharge from its own resources obligations arising from claims settlements.

OPIC's financial performance continues to show growth in revenues and net income at the mid-point in the current fiscal year. Total revenues are 16 percent greater and net income of $31 million is 17 percent greater than at the same period a year ago.

RESPONSE TO 1978 LEGISLATION

Following the hearings before this Committee in 1977, legislation for OPIC was enacted in 1978 which made a number of operational changes in CPIC's programs or gave it new mandates. The principal changes and OPIC's implementation of them are described below.

A. Country restrictions

The 1978 amendments rearranged the previous list of policy guidelines in Section 231 of the Foreign Assistance Act to emphasize assistance to the poorer LDCs. It did this by restricting OPIC programs in LDCs with per capita incomes in excess of $1,000 in 1975 dollars and giving preferential consideration to projects in LDCs with per capita incomes of $520 or less in 1975 dollars.

Subject to certain exceptions, such as those for small businesses and minerals and energy projects, OPIC programs are generally unavailable to U.S. investors in an LDC having a per capita income in excess of $1,000 in 1975 dollars, where the full range of OPIC programs had been formerly available.

1. *The poorest countries.*—The 1978 legislative changes also reemphasized OPIC's mandate to give preferential consideration to investment projects in the poorest developing nations, defined as having a per capita GNP of less than $520 in 1975 dollars. As a result of this mandate, OPIC has continued to concentrate much of its resources and staff time on encouraging projects in these countries.

In fiscal year 1979, 55 percent of the projects insured by OPIC and 43 percent of the financed projects, including one regional project, were in these nations. During the past three years, OPIC has organized investment missions to six of these countries, including the Sudan, Honduras, Sri Lanka, Indonesia, Philippines, and Thailand, and is currently organizing a mission to Kenya. In addition, major investment opportunity identification and promotion efforts have been made in Egypt, North Yemen, Haiti, and several West African states. OPIC officers helped Papua New Guinea, Liberia, and the Cameroon to implement a series of investment promotion seminars in this country and OPIC organized a special seminar on foreign investment opportunities for the tropical hardwoods industry in which four of the five foreign participant countries were in the "below-$520" group.

2. *Special efforts in Haiti.*—A further example of OPIC's focus on the encouragement of more investment in the poorest countries is the special project promotion effort made in Haiti during the past several years. This approach is designed to assist a particular country and is being followed in other countries. It shows how OPIC can "plow back" its profits from its overall worldwide operations into special efforts to assist the poorest of the poor. Haiti is the poorest and least developed nation in this hemisphere, and on the surface, the prospects

for profitable private investment would appear to be few and far between. Haiti does have important resources, however, which if properly identified and promoted can provide the basis for viable, developmentally beneficial private investments. To identify both these resources and specific investment opportunities which OPIC could catalyze into reality, two staff members were committed to about two years of priority effort. To date, OPIC has financed five projects in Haiti; two in agribusiness, two in light manufacturing, and one in tourism, all by U.S. small businesses, and there are good possibilities for more projects in the future.

Similar efforts have been made in Ecuador and Belize, and somewhat more modest programs are being implemented in Honduras and North Yeman.

3. *The impact of country restrictions.*—It was argued that the limitation in over-$1,000 LDCs would permit OPIC to concentrate its activities in the under-$1,000 LDCs and therefore increase the flow of private investment they receive. This argument ignores some realities that severely limit OPIC's ability to induce private investment in the poorer LDCs. Restricting OPIC operations in upper-income LDCs has not given OPIC any additional ability to encourage U.S. investors to go where there is no commercial justification for them, nor has it "freed-up" needed manpower or operating authorities to do more business in the poorest countries. OPIC cannot induce investors to change their investment plans for higher income LDCs to one of the poorest countries where there is no commercial basis for such a project.

Under pre-1978 legislation, OPIC fully provided for those U.S. investors interested in the poorest nations and sought to encourage other investors to consider those countries. OPIC's ability to serve the needs of U.S. investors going into the poorest nations was not in any way constrained by a lack of manpower occasioned by OPIC's activities in the higher-income LDCs or by a lack of insurance and guaranty authority caused by its activities in the upper-income countries. Both before and after the implementation of the restrictive policy, OPIC has concentrated its investment promotion activities in the poorer countries. After two and one-half years of the restrictive policy, there is no evidence to support the argument that concentration of OPIC programs in the under-$1,000 LDCs will materially affect the flow of investment to these countries.

A full resumption of OPIC activities in middle- and higher-income LDCs would neither reduce OPIC's ability to meet the needs of investors in low-income LDCs, nor result in a diversion of investments from the poorer to the upper income LDCs. The overall effect would be increased private U.S. investment in the developing world as a whole and thus increased numbers of developmental projects.

As a result of the legislative mandate to restrict activities in the "over-$1.000" countries, the complexion of OPIC business and the character of its portfolio have begun to change. In the most recent fiscal year, 1979, OPIC insured or financed 83 projects, 70 of which (or 84.3 percent) are located in under-$1,000 LDCs. In dollar terms, finance commitments issued aggregated $61 million and insurance coverages totaling $803 million were issued. While the finance activity represents a continuing expansion over prior years, the insurance volume is still substantially below the record of $1.2 billion reached in fiscal year 1976. In fact, the overall effect of the restrictive policy has been to reduce OPIC insurance activity by about one-third. If the dollar figures were corrected for inflation, the reduction would be even more significant. OPIC has formally rejected more than 70 proposed projects in the higher income countries due to this restriction. We also know for a fact that clients have not even bothered to inquire about numerous other projects that would also be ineligible for OPIC assistance under this policy.

Along with the reduction in the volume of insurance business, there has been a concomitant reduction in income potential. The long-range impact of the restrictive policy for OPIC's insurance program will be to cut off a significant amount of insurance business in the over-$1.000 LDCs and continue insurance activity at previous levels in the under-$1.000 LDCs. Eventually this will unduly skew the insurance portfolio toward projects in the poorer LDCs. As the Foreign Assistance Act requires OPIC to operate on a self-sustaining basis, OPIC must be able to continue to maintain a geographically balanced portfolio and to build up its insurance reserves in order to justify the expansion of its operations into the riskier business of insuring or financing energy and minerals projects. The restriction on OPIC activities in the over-$1,000 LDCs has made this much more difficult for OPIC to do.

If the over-$1,000 restriction were removed, OPIC would make its insurance program available to those larger companies which approached OPIC and declared their desire or need for insurance. Based on pre-1978 program activity, OPIC believes that this would increase its insurance volume by approximately one-third, with important benefits for OPIC in terms of increased income and portfolio balance. Yet, the extra manpower required for these approximately 30 projects per year would be negligible, averaging only 2–3 projects per insurance officer per year. The loss of income potential from projects in the over-$1,000 LDCs also reduces OPIC's ability to increase the size of its insurance and guaranty reserves, both of which can be realistically increased only through transfers from income.

The restrictive policy applicable to OPIC programs is over-$1,000 LDCs is not only inconsistent with other developmental programs of the U.S. Government, but also with the developmental programs of other industrialized nations and development banks, none of which have adopted a rigid arbitrary figure for the purpose of limiting a development program. Most of them view development as an ongoing process. As development proceeds, developing countries can reduce their dependence on external concessional assistance and rely more heavily on domestic and international private capital, investment, and expertise. The transition from dependence on concessional aid to greater reliance on private resources is a gradual process and is facilitated by programs involving loans, investment guaranties and reimbursable services. AID has programs available in the over-$1,000 LDCs. Regional and multilateral institutions to which the U.S. Government has devoted substantial support are very active in promoting private participation in projects in over-$1,000 LDCs through their loan and loan guaranty programs. Investment insurance and guaranty programs operated by other industrialized nations make no distinction between upper, middle or lower-income LDCs; such programs are available across the board in nearly all the LDCs. Thus the restrictive policy applicable to OPIC is an anomaly when compared to the policies governing other national, regional and multilateral programs. Most importantly, it deprives the USG of one of the few developmental tools available to it in the over-$1,000 countries.

The inability of OPIC to respond to the expressed needs of prospective U.S. investors in the "above-$1,000" country markets means not only that OPIC cannot maximize its developmental contribution but also that it is inhibited in its ability to help American workers and American businesses—to help stimulate American exports and create American jobs. As I have already mentioned, the projects that OPIC selectively encourages allow American workers to compete in foreign markets. If OPIC is not able to offer its programs to facilitate the entry of American business into these important and growing markets, many of these opportunities might be lost to foreign companies, which are being supported very actively in these countries by their national counterparts to OPIC.

In summary, the $1,000 per capita country restriction has resulted in:

No noticeable increase in OPIC's ability to encourage investment in the poorest countries;

A reduction in our ability to further development in the higher income developing nations;

A reduction in our ability to encourage developmental projects that also benefit the United States by increasing our exports; and

A less strong financial situation than would otherwise be possible.

B. Improved developmental impact analysis

OPIC developed, in consultation with AID, specific improved criteria based on the 1978 legislation to be utilized in judging more thoroughly the developmental impact of each project which is insured or financed. Using these criteria, OPIC has devised a development impact profile which is completed for each applicant project. With this information, OPIC is able to evaluate the known and anticipated development effects of projects it has under consideration for assistance.

A copy of OPICs policy concerning development impact assessment, the guidelines for completing the development impact profits and the form used to compile such profiles are attached to my statement as Exhibit G.

We believe that our profiles are fully responsive to the concerns of the Congress and provide convincing proof of the very broad and diverse ways in which the projects OPIC supports further the development assistance efforts of their host countries.

The 1978 legislative changes also stipulated that OPIC provide the Congress with an annual report based upon these profiles containing an assessment of the social and economic impact of OPIC projects and how the OPIC supported projects complement the programs of AID and other development agencies.

C. Small business

The 1978 legislation (1) restricted OPIC's direct loans to projects sponsored by or significantly involving U.S. small businesses or cooperatives, (2) called on OPIC to seek to increase the number of projects sponsored by or significantly involving U.S. small business to at least 30 percent of all projects insured, guaranteed or reinsured, and (3) authorized OPIC to use up to 50 percent of its annual net income, after allocation to reserves, to fund innovative small private enterprise development programs. Under this legislation, small business means a company smaller than the "Fortune 1,000."

OPIC gave immediate attention to the implementation of these directives, intensifying its efforts to introduce small business firms to the opportunities for investment in the developing world. OPIC reduced insurance registration fees for small business and kept administrative requirements to a minimum. We developed a special incentive program providing for payment of commissions to licensed insurance brokers around the country who help their small business customers in the purchase of political risk insurance policies. In some circumstances, OPIC also will share some of the organizational costs for small businesses, such as the expense of setting up a workable accounting system, and some of the legal and consulting costs involved in completing documentation for an OPIC loan.

The export and investment seminar program sponsored by OPIC in cooperation with the Export-Import Bank of the United States, the U.S. Department of Commerce and the Small Business Administration is aimed at small firms. Since the first meetings in March 1978, OPIC officers have visited more than 60 cities (cities and co-sponsors are listed in Exhibit H) where they described the OPIC services to over 10,000 small business executives. In addition, OPIC played an active part in the 50-state White House Small Business Conferences.

OPIC's toll-free "Hot Line" (800-424-OPIC), installed to encourage inquiries from small businesses, has averaged some 175 calls a month.

During the 1979 fiscal year, 31 percent of OPIC insurance contracts were issued to small businesses and cooperatives. They were investors in 28 percent of all projects involving OPIC insured investments. Forty percent of the registrations for insurance during that year were issued to such firms.

Over half of the participants in the 1979 OPIC investor missions were small businesses. Six of eight OPIC feasibility study participations went to small businesses as did nine, or nearly two-thirds, of the loan and loan guaranty authorizations of the Finance Department.

This degree of small business use of OPIC services remains the overall trend since the close of the fiscal year.

During 1979 funds utilized, under authority of Section 240 of the Foreign Assistance Act, amounted to $2,335,450. These funds paid for a number of the small business services described above and were used to augment the loss reserve of the Direct Investment Fund (which is available only to small business borrowers).

Of course, the overwhelming number of foreign investments is undertaken by the large, experienced companies; and while most companies first enter the foreign markets through exporting, most small businesses are not yet doing much exporting.

OPIC, however, now appears to smaller companies to be more accessive than in the past, and more firms have become aware of its reputation for worthwhile innovation and responsiveness in program content and personnel attitudes. Having become known more favorably within the small business community, we must continue to live up to the expectations we have created.

D. Concern for U.S. employment

The 1978 legislation on U.S. effects analysis codified what had previously been OPIC's policy. It stipulated that OPIC should deny its services for an investment if it was determined that the investment is likely to cause significant reduction in U.S. employment. OPIC established an Economic Impact Analysis Unit which analyzes the probable U.S. impact of proposed projects, including such factors as the level of domestic employment, exports, balance of payments and the transfer of high technology abroad. As a result of creating our Economic Impact Analysis Unit, we are now able to undertake a more sophisticated analysis of the probable impact of a proposed project on an entire U.S. business sector or sectors. These sectoral analyses include consideration of such factors as the sensitivity of U.S. businesses to imports, the competitiveness of U.S. exports in foreign markets, ramifications of proposed projects in related business sectors, and likely alternatives to specific proposed foreign investments. The Unit corroborates information supplied by the investor by reference to other sources, through consultation with industry experts at other U.S. Government agencies such as Commerce, Agriculture, Labor, the International Trade Commission, and the United States Trade Representative and by contacting trade associations. If necessary, OPIC officers also visit the U.S. headquarters and/or plant sites of applicants to assist in analyzing proposed projects. In addition, outside consultants are hired and used by OPIC to analyze such sensitive industries as textiles and electronics. These specialists provide both an overview of the industry as well as more detailed analysis of specific proposed projects.

In the past, the General Accounting Office has reviewed our procedures for analyzing the potential U.S. economic impact of proposed projects and determined that they were fully adequate to protect domestic American economic interests. We are convinced that the even more rigorous screening process adopted by OPIC after the 1978 legislation will ensure that OPIC continues to avoid encouraging investments overseas that might cause a significant reduction of U.S. employment.

E. Human rights

Section 239(1) of the Foreign Assistance Act, added in 1978, subjects OPIC programs to the human rights provisions of Section 116 of the Act and requires that OPIC take into account, "in consultation with the Secretary of State", human rights conditions in the country and the effects of the operation of OPIC programs on human rights in such a country. In implementing this legislation, OPIC submits to the State Department's Bureau of Human Rights and Humanitarian Affairs a summary of each project that it proposes to support in order to obtain advice from State to ensure compliance with U.S. Government human rights policies on the human rights situation. If the Bureau has no reservations concerning OPIC's proposed support of the project, OPIC is free to move forward; if the Bureau expresses reservations, OPIC's proposal is referred for review to the Interagency Group on Human Rights and Foreign Assistance, better known as the "Christopher Group". Following a review of the proposed project by the Christopher Group, Deputy Secretary Christopher informs OPIC of the State Department's recommendation on whether OPIC should proceed with the project. OPIC has always followed the State Department's human rights recommendations.

OPIC'S POSITION ON MAJOR PROVISIONS OF JAVITS-RIBICOFF BILL

As I have already indicated, the major provisions of the Javits-Ribicoff Bill have been considered by an interagency task force and by the OPIC Board of Directors. The Board's position on these major provisions is set forth below.

A. Removal of $1,000 per capita restriction

Section 231 of the present statute states that OPIC should restrict its activities in developing countries having per capita incomes in excess of $1,000 in 1975 dollars. The Javits-Ribicoff Bill would remove this restriction, and the OPIC Board supports this proposal. There are a number of reasons to support removal of this restriction. First, the restriction prevents OPIC from performing an important development role in middle and upper income developing countries, which continue to have substantial development needs. Vast sections of their population still live in poverty or are unemployed. Since bilateral concessional assistance generally is not available for over-$1,000 countries, the most effective American contribution to development in such countries is private investment in projects which generate local employment, transfer skills, stimulate local enterprises, earn or save foreign exchange, increase local government revenues and contribute social benefits to the community in which the project is located. However, the only U.S. Government agency encouraging such investment is presently restricted in these countries. Thus, removal of the country restriction will give the U.S. Government full use of OPIC programs in such countries to encourage American participation in developmental projects.

Second, removal of the restriction will permit OPIC to increase its volume of business, thereby increasing its revenues. Since OPIC is self-sustaining and does not receive Congressional appropriations, it can utilize additional revenues to continue to expand its reserves which will thereby permit it prudently to accommodate the higher risk minerals and energy projects.

Third, removal will permit OPIC to spread its portfolio of business more broadly than presently possible. With the $1,000 per capita limitations, the geographic concentration of OPIC's business has been shifting to the poorer countries.

Fourth, removal of the restriction will permit OPIC to fully realise its potential in carrying out a trade function in the over $1,000 countries. It should be pointed out that removal of the $1,000 per capita country restriction will in no way change OPIC's mandate to give preferential consideration to projects in the poorer developing countries, those with per capita incomes of $520 or less in 1975 dollars.

B. Trade function

The Javits-Ribicoff Bill would formally recognise the role that OPIC can play in contributing to an increase in U.S. exports. The OPIC Board supports an explicit trade function for OPIC. Such a statutory change will give OPIC the authority it needs to try to stimulate development projects which will have beneficial trade effects. At the same time, such authority would overcome past legislative and administrative policies which seemed to minimise OPIC's role in export promotion. The Javits-Ribicoff Bill could be construed as requiring that every OPIC-supported project be both developmental and export-oriented. While the presence of both effects would be desirable, OPIC should be able to pursue developmental projects which have neutral trade effects. Appropriate clarification in the Bill language would therefore be advisable.

C. 4-year extension

Under Section 235(a)(4) of the present statute, OPIC's authority to issue investment insurance and guaranties expires on September 30, 1981. The Javits-Ribicoff Bill proposes to extend such authority until September 30, 1985, and this is supported by the OPIC Board.

D. Organizational changes

OPIC's present enabling legislation is part of the Foreign Assistance Act of 1961, as amended. As a result, OPIC is subject to certain of the provisions of general applicability contained in the Act and is subject to the foreign policy guidance of the Secretary of State. Pursuant to Reorganization Plan No. 2 of 1979, the Director of IDCA became Chairman of OPIC's Board of Directors and OPIC receives development guidance from him. The Javits-Ribicoff Bill would both remove OPIC from the Foreign Assistance Act and remove the Director of IDCA as OPIC's Chairman. The OPIC Board opposes this proposal. It wishes to retain its existing relationship with IDCA.

E. Civil strife

The Javits-Ribicoff Bill would amend Section 234(a)(1)(C) of OPIC's present statute to permit OPIC to issue investment insurance on losses from civil strife. This would permit coverage of losses resulting from the type of political violence not covered by the present war, revolution and insurrection authority. The OPIC Board supports this proposal.

F. Small business

The Javits-Ribicoff Bill would amend OPIC's statute to remove the 10 percent coinsurance requirement for small business. Since OPIC is supposed to give preferential treatment to small investors, this proposal demonstrates such preferential treatment in a concrete manner. OPIC's Board supports this proposal.

G. Eligible investor

The Javits-Ribicoff Bill proposes to liberalize the definition of eligible investor contained in Section 238(c) of OPIC's present statute. The OPIC Board supports this change insofar as it relates to U.S. entities, but would not support a change of definition for foreign entities.

H. Increasing existing authorities

It is proposed in the Javits-Ribicoff Bill to increase OPIC's insurance and guaranty authorities by $2.5 billion and $250 million, respectively. Since OPIC expects its present authorities to be sufficient through 1985, the OPIC Board would not seek an increase in the authorities at this time. At such time as OPIC's business expands beyond anticipated levels, OPIC could then request an increase in its authorities.

CONCLUSION

In summary, Mr. Chairman, I submit that we face a time of great challenge and opportunity during the 1980s and if we are to cope successfully with both we must act and act now.

The developing countries are confronted with a critical situation in that their financial burdens have grown enormously since the increase in oil prices and the worldwide recession of the mid-1970s. At the same time their needs have increased while concessional aid from the United States and many other industrialized nations is declining and simply cannot fill the gap. Even those LDCs committed to extensive public sector economies now recognize that foreign private investment is the most efficient way to acquire the management, technology and capital essential to a more self-sufficient economy.

The LDCs are in particular need of certain types of investment which will help to develop natural resources, improve agriculture, strengthen the food chain and provide the kind of training and management skills needed to overcome human resource shortages.

At the same time, the U.S. must reassess its position in the international marketplace, recognizing that if we are to maintain or increase the export levels necessary to continued growth we must take a more aggressive stance in cultivating the potential of the world's fastest-growing markets—the developing nations. A stronger market position will not come just for the asking. Our competitors—Japan, Germany, Britain, France, Canada and other industrialized nations—know a good opportunity when they see it and historically they have been far more supportive of their business communities than we have.

To gain the kind of momentum we need we must remove or at least reduce the disincentives which might bring on a decline in the rate of foreign investment. We should do this by providing incentives that will lessen the deepseated apprehension about the political risk and uncertainties of making a commitment in the LDCs. The most effective way to do this is to send the earliest possible signal to the U.S. business community that the U.S. Government, through stronger and broader OPIC programs, will be an active partner for the years to come.

An increased level of trade promotion by OPIC will supplement, not detract from OPIC's developmental role, because we are able to select those projects which will contribute most significantly to host country economic and social progress. This selectivity is also an important safety valve for the protection of the U.S. economy and the domestic job market since we deny support for any project which would have a significant adverse effect on the U.S. labor force. Without investment there will be no acceleration of development. Without development there will be little growth in the world's greatest potential markets. And without that market growth we will be hard-pressed to create new outlets for our products and services and the new jobs needed to sustain our own growth rate.

We firmly believe that the four-year extension called for in the Javits-Ribicoff Bill and the other proposals in the Bill, which are supported by the OPIC Board and the Administration will send the strong and much-needed signal to the business community for them to plan ahead for cultivation of international markets. That signal should go out now.

Removal of the $1,000 per capita restriction will send positive signals both to the business community and to the developing world. To the investor it will mean access to the most promising markets; to those LDCs which fall into the "middle-income" category it will remove what they have felt was an arbitrary penalization for success.

The 1980s offer us the challenge and the opportunity for growth as opposed to decline. OPIC has a role to play and we are anxious to have that role expanded through the legislative changes addressed above.

Thank you, Mr. Chairman.

Exhibit A

Approved by the Board of Directors on May 13, 1980.

Resolved that the Chairman and the President of the Corporation be, and hereby are, authorized and directed, subject to appropriate Executive Branch review, to seek amendments to the Foreign Assistance Act of 1961, as amended, which will implement and be consistent with the following legislative proposals:

1. Extension of the Corporation's insurance and guaranty authorities through September 30, 1985;

2. Removal of the limitation of the Corporation's activities with respect to investment projects in less developed countries that have per capita incomes of $1,000 or more in 1975 United States dollars;
3. Addition of a "trade purpose" for the Corporation;
4. Authority to cover losses due to civil strife;
5. Removal of 10 percent coinsurance for small business;
6. Waiver of statutory prohibition on activities in Communist countries; and
7. Broader definition of eligible domestic United States investor;

plus consistent or requisite technical or conforming amendments.

ELIZABETH A. BURTON,
Corporate Secretary.

Approved by the Board of Directors on May 13, 1980.

Resolved that the Corporation shall continue to maintain its existing relationship with the International Development Cooperation Administration.

ELIZABETH A. BURTON,
Corporate Secretary.

EXHIBIT B

OPIC AND U.S. FOREIGN TRADE AND INVESTMENT

The primary purpose of OPIC is to stimulate and facilitate the participation of U.S. private capital and skills in friendly developing countries as means of hastening and broadening their economic and social development.

While official development assistance has helped to ease the financial burdens of some LDCs, the enormous investment required for dynamic economic growth continues to depend largely on the internal savings and energies of the developing nations themselves and on an inflow of private capital, manpower training, efficient management and other business skills.

OPIC's political risk insurance, together with its financing and investment promotion activities, make it more likely that U.S. private investors will participate in this development process, particularly in the lower income LDCs. OPIC helps find investment opportunities. OPIC's financing can fill gaps that otherwise would preclude smaller particularly pioneering ventures from getting underway. And OPIC insurance helps to overcome some of the uncertainties of investing in LDCs. The investor who is insured can afford to take a longer view of investment prospects. He can accept lower rates of return, reinvest his earnings and offer additional social benefits to the developing country. OPIC's insurance also provides a relatively non-political mechanism for avoiding or resolving investment disputes.

OPIC is nevertheless selective in its support to U.S. investors.

It must be certain that the particular investment does indeed contribute to development.

It must be assured that the particular investment does not adversely affect the U.S. economy.

In the past six fiscal years:

OPIC has encouraged and assisted 681 investment projects in 60 developing countries for a total investment of some $6.8 billion.

In support of these projects, OPIC insured $1.75 billion of investment and provided $164.1 million in investment guaranties and $45.9 million in direct loans.

Over the first five years of operation, these projects will: Create 205,000 new jobs; generate or save $2.1 billion in foreign exchange; provide $290.2 million of net revenues to their host governments; and provide countless benefits in training, business development, etc.

The effect of these developments is to broaden and strengthen the LDC economies helping to create and expand markets for U.S. exports in a part of the world that has increased its purchases from the U.S. to over $55 billion annually—greater than U.S. exports to all of Europe and Japan combined.

OPIC-assisted projects benefited the United States in several important ways during the past six years:

Initial exports of U.S. machinery and equipment used to establish these projects amounted to $1.9 billion.

Exports of U.S. materials and supplies for use as production inputs in the first five years of operation of these projects are estimated at $3.1 billion.

Estimated net capital flows back to the U.S. in the form of interest, dividends, fees, royalties and loan repayments in the first five years of project operation are $152.5 million.

Estimated U.S. jobs created or supported by these investments in the first five years of project operation are 47,000.

OPIC is highly selective in supporting only those projects which will not cause a significant loss of U.S. jobs. The potential U.S. economic impact of each proposed project is carefully analyzed by OPIC before any assistance is provided. OPIC has consistently refused to support any "runaway plants," projects that will transfer U.S. high technology overseas, or other investment projects that would be harmful to the U.S.

OPIC does not contribute to projects which would compete with U.S. goods. Rather, it encourages projects which compete in local markets of LDCs with non-U.S. source goods; projects which provide components for finished goods manufactured in the U.S., in lieu of their coming from other foreign countries or being supplanted by other industrial countries' exports to the U.S.; and projects which provide strategic minerals and other products needed by this country but not available from domestic sources.

All of OPIC's operations are done on a self-supporting basis from fees charged for its services. OPIC does not require appropriations from Congress.

EXAMPLES OF OPIC-SUPPORTED PROJECTS INCREASING U.S. IMPORT AND MEETING U.S. IMPORT REQUIREMENTS

A. Projects that purchased U.S. equipment

A corrugated container plant in Israel involving U.S. purchases of $52 million from:

	Millions
Louisiana	$11.4
Georgia	10.9
New Jersey	9.2
New York	7.9
Illinois	7.2
Ohio	1.9
Pennsylvania	1.5

A dry cell battery plant in Nigeria involving U.S. purchases of $11.5 million from:

	Millions
Illinois	$3.9
Ohio	3.1
New Jersey	2.6
Georgia	1.9

Expansion of an oil storage facility in Panama involving U.S. purchases of $7.5 million from:

	Millions
Illinois	$5.2
New York	2.3

A project to assemble pianos and organs involving U.S. purchases of $6.5 million from:

	Millions
Mississippi	$4.1
Ohio	2.4

Expansion of a tire plant in Thailand involving purchases of $8.6 million from:

	Millions
Ohio	$6.7
Indiana	1.9

Examples of other projects involving purchases of machinery, equipment and other supplies from the United States include:

Exploration and development of crude oil reserves in Egypt: $89 million.

Facility to produce hydrocarbons in Ghana: $75 million.

B. Projects that develop markets for ongoing exports or U.S. products

A facility in Jamaica to process soybeans, which will generate $93 million of soybean exports in five years.

An expansion of a flour mill in Zaire involving exports of U.S. wheat amounting to 65,000 metric tons per year.

A flour mill in Nigeria involving exports of 157,000 metric tons of wheat per year.

A manufacturer of off-the-road tractor equipment established an after-sales service and repair facility which is expected to result in increased U.S. exports of $16 million annually.

A project to produce polystyrene resins in Thailand will purchase more than $6.5 million annually in raw materials from the U.S.

A poultry breeding farm in the Dominican Republic will purchase $350,000 of chick breeding stock annually from the investor's operations in Florida. In addition, the project will require purchases of feed, vitamin supplements and other supplies from other U.S. companies.

C. Projects that supply raw material and products unavailable in the United States -

Over 23 percent of OPIC insurance covers mining investments:

Cobalt from Botswana. The U.S. imports 98 percent of its needs.

Fluorspar from Kenya and Thailand. The U.S. imports 80 percent of its needs.

Gold from El Salvador. The U.S. imports 84 percent of its needs.

Nickel from Botswana, Indonesia and Philippines. The U.S. imports 93 percent of its needs.

Tin from Thailand. The U.S. imports 85 percent of its needs.

Titanium (Rutile) from Sierra Leone. The U.S. imports 93 percent of its needs.

Many OPIC-encouraged projects produce tropical agricultural products that cannot be produced in the United States. These products, which are all either exported to the United States or sold in the general work market, include various spices, bananas, gum arabic, tea, coffee, natural rubber, and tropical hardwoods.

EXHIBIT C

COUNTRY AND AREA LIST

AFGHANISTAN
ANTIGUA
Argentina [1]
Bangladesh
Barbados [1]
BELIZE
BENIN (DAHOMEY)
Bolivia
BOTSWANA
Brazil [1]
BURUNDI
CAMEROON
CENTRAL AFRICAN REPUBLIC
CHAD
Chile [1]
Colombia
CONGO (BRAZZAVILLE)
Costa Rica
CYPRUS [1]
DOMINICA
Dominican Republic
Ecuador
EGYPT
El Salvador
ETHIOPIA
FIJI [1]
GABON [1]
GAMBIA
GHANA
GREECE [1]
Grenada
Guatemala
GUINEA
GUYANA
Haiti
Honduras
India
INDONESIA
Israel [1]
IVORY COAST
JAMAICA
JORDAN
KENYA
KOREA
LESOTHO
LIBERIA
MADAGASCAR
MALAWI
MALAYSIA
MALI
Malta [1]
MAURITANIA
MAURITIUS
MOROCCO
NEPAL
Nicaragua
NIGER
NIGERIA
Oman [1]
PAKISTAN
Panama [1]
Papua New Guinea
Paraguay
Peru
PHILIPPINES
Portugal [1]
ROMANIA [1]
Rwanda
ST. CHRISTOPHER
(ST. KITT'S-NEVIS)
ST. LUCIA
ST. VINCENT
Saudi Arabia [1]
SENEGAL
SIERRA LEONE
SINGAPORE [1]
SOMALI REP.
SRI LANKA (CEYLON)
SUDAN
Suriname [1]
SWAZILAND
Syria
TAIWAN
Tanzania
(excluding Zanzibar)
Thailand
TOGO
TRINIDAD
TOBAGO [1]
TUNISIA
Turkey
UGANDA
UPPER VOLTA
Venezuela [1]
Western Samoa
Yemen (Sanaa)
YUGOSLAVIA [1]
ZAIRE
ZAMBIA

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[1] Programs subject to restrictions because of country's relatively high per capita gross national product.

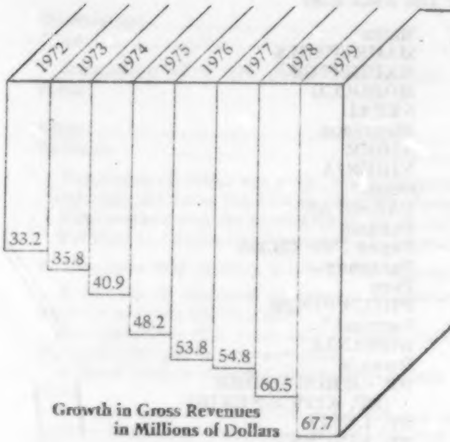
NOTES

Countries and areas in capital letters are members of the World Bank International Center for the Settlement of Investment Disputes.

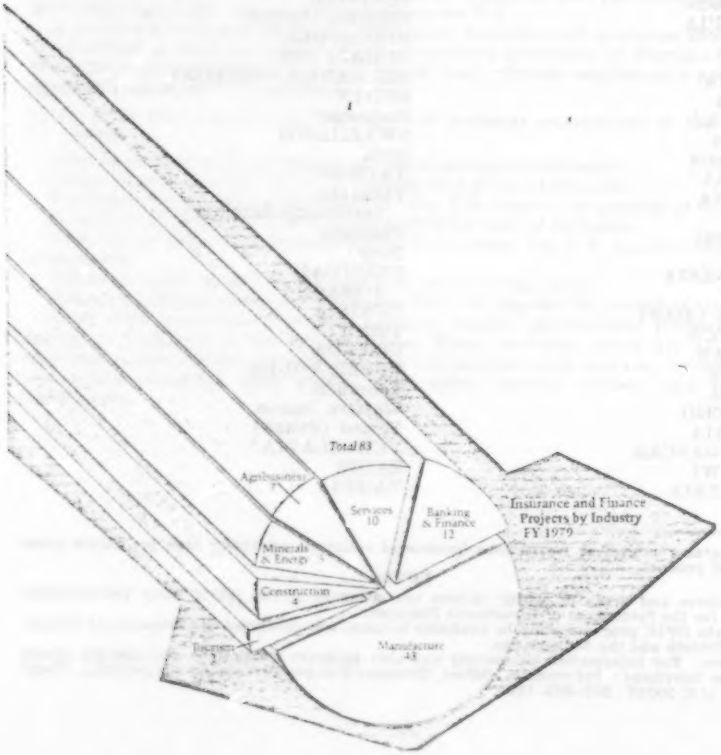
Certain OPIC programs may be available in some less developed dependencies of France, Great Britain and the Netherlands.

Source: For information on country and area program restrictions and changes, please write or telephone: Information Officer, Overseas Private Investment Corporation, Washington, D.C. 20527 ; 202-632-1854.

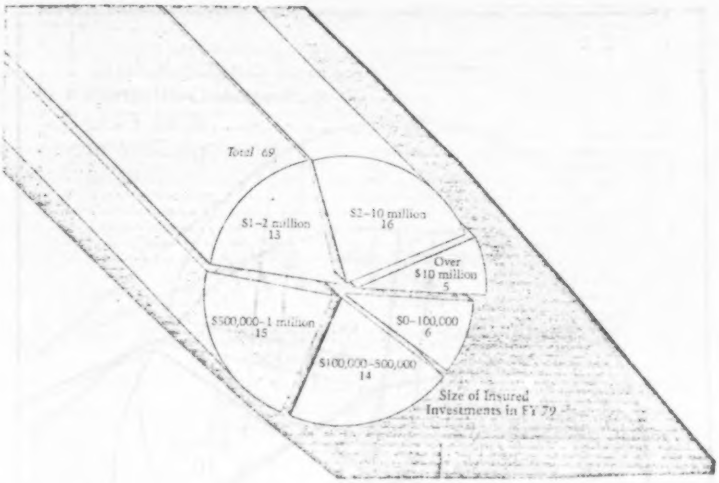
EXHIBIT D



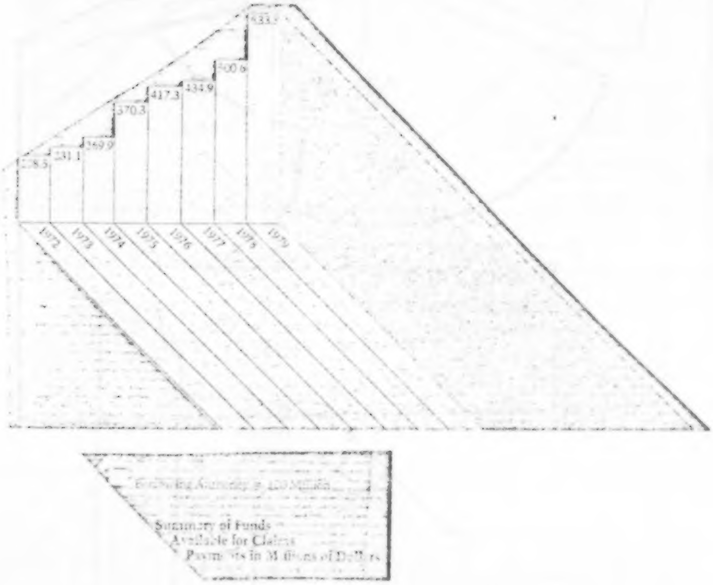
Growth in Gross Revenues in Millions of Dollars



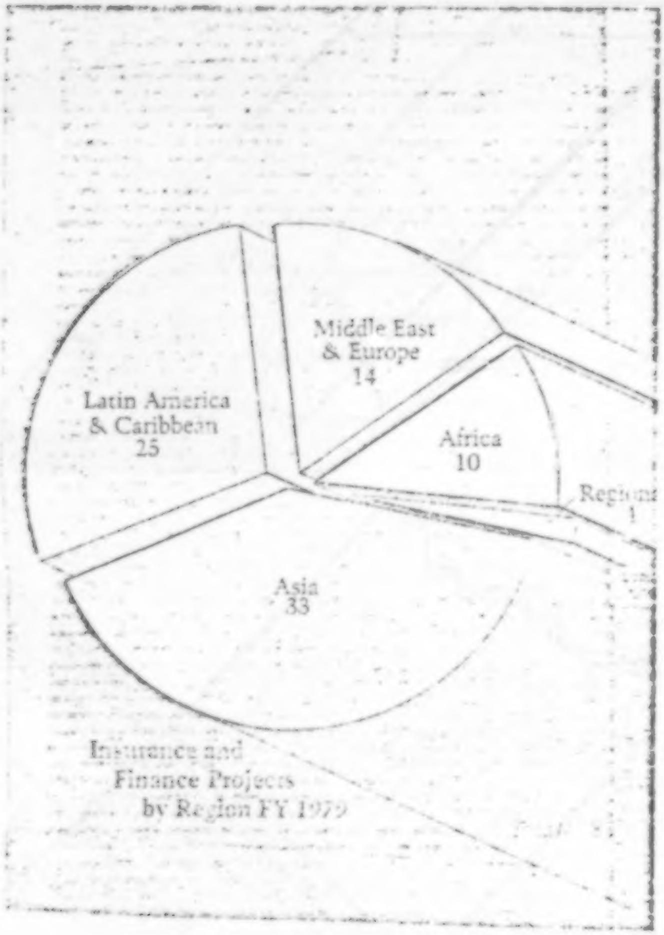
Insurance and Finance Projects by Industry FY 1979



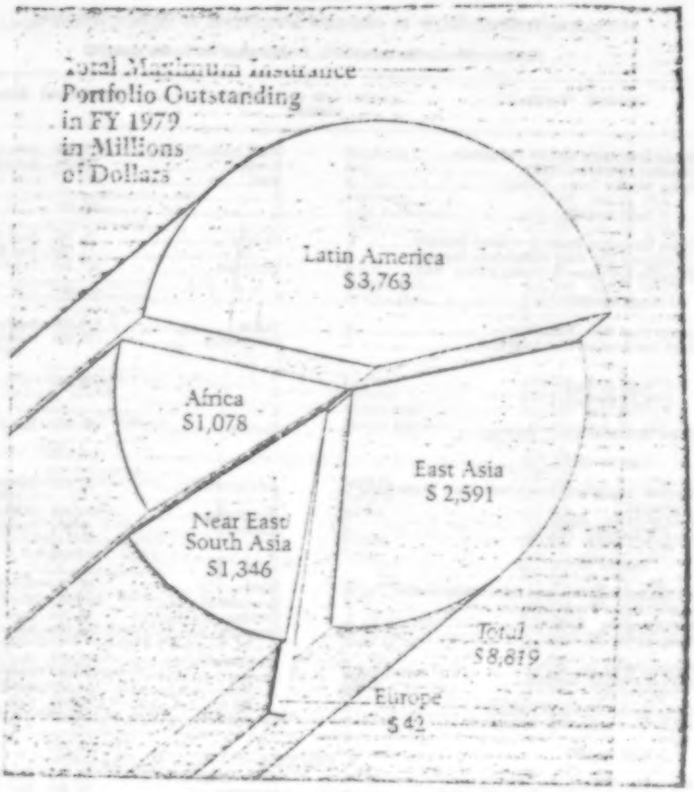
Size of Insured Investments in FY 79



Summary of Funds
Available for Claims
Payments in Millions of Dollars



Insurance and Finance Projects by Region FY 1979


Total Maximum Insurance
Portfolio Outstanding
in FY 1979
in Millions
of Dollars
Latin America
$3,763
Africa
$1,078
East Asia
$ 2,591
Near East/
South Asia
$1,346
Total
$8,819
Europe
$42

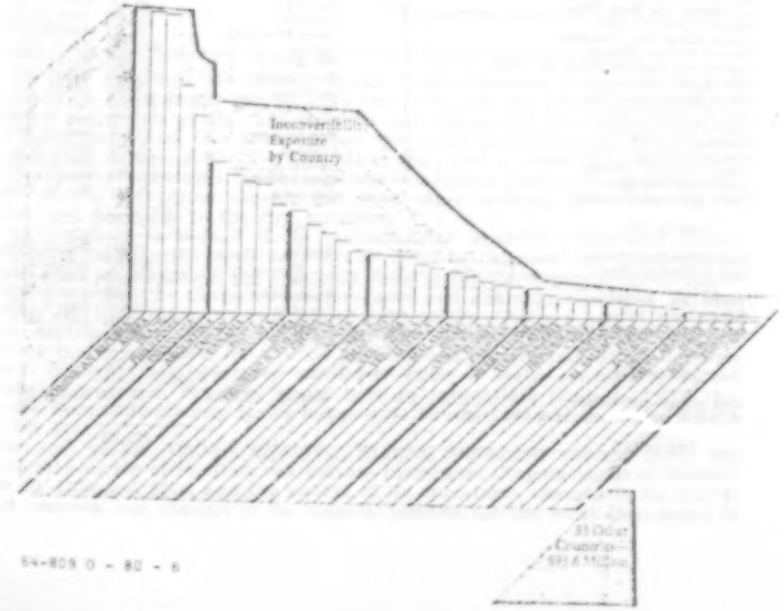

Inconvertibility
Exposure
by Country
35 Other
Countries—
$91.6 Million

EXHIBIT E

CLAIMS RESOLVED SOLELY BY OPIC CASH SETTLEMENTS TO INSURED INVESTORS

[Types of claim: A—Inconvertibility, B—Expropriation, C—War damage]

Investor: Country	Type of claim	Industry	Amount paid	Date paid
Rheem Manufacturing Co.: Philippines	A	Metal	$22,000	June 10, 1966.
Pluswood Industries: Zaire	A	Lumber	90,344	August 5, 1966.
Foster Wheeler Corp.: Turkey	A	Steel	183,947	June 10, 1966.
Total for 1966			296,291	
Chase Manhattan Bank: Dominican Republic	C	Banking	26,340	April 21, 1967.
1st National City Bank: Dominican Republic	C	do	11,563	May 25, 1967.
Valentine Petroleum & Chemical Corp: Haiti	B	Extractive	327,304	October 30, 196
Total for 1967			365,207	
Indian Head Mills, Inc.: Nigeria	B	Textile	2,700,000	October 12, 196
Crow Construction Co.: Jordan	C	Construction	139,898	November 13, 1968.
Total for 1968			2,839,898	
Total for 1969			0	
Chase Manhattan Bank: Vietnam	A	Banking	319,576	July 21, 1970.
Total for 1970			319,576	
Western Hemisphere Enterprises, Inc.: Dominican Republic.	C	Auto leasing	13,000	December 31, 1971.
Ford Motor Co.: Chile	A	Automotive	910,885	October 26, 197
Bank of America: Vietnam	A	Banking	25,654	January 8, 197
Total for 1971			949,539	
1st Pennsylvania Overseas Corp.: Philippines	A	Banking	16,371	Nov. 14, 1972.
Vennell Corp.: Bangladesh	C	Construction	413,662	May 21, 1972.
Hercules, Inc.: Pakistan	C	Fertilizer	18,353	June 21, 1972.
Chile Copper Co.: Chile	B	Extractive	13,640,000	Sept. 20, 1972; Mar. 14, 197
Ralston Purina Co.: Chile	B	Feed/grain	614,475	May 19, 1972.
Bank of America: Vietnam	A	Banking	31,947	Aug. 9, 1972.
Do	A	do	54,847	Oct. 20, 1972.
Chase Manhattan Bank: Vietnam	A	do	26,316	Sept. 19, 1972.
Walsh Construction Co.: Sudan	B	Construction	222,352	Dec. 14, 1972.
Total for 1972			15,038,323	
Nibco, Inc.: Chile	B	Brass fittings	110,000	Feb. 6, 1973.
International Chemical Fibers, Inc.: Chile	A	Polyesters	29,494	Mar. 19, 1973.
1st National City Bank: Chile	B	Banking	66,503	April 11, 1973.
Ralston Purina Co.: Chile	B	Feed/grain	212,000	April 18, 1973
Central Signal Corp.: Argentina	A	Signal developing	10,218	April 25, 1973
Bank of America: Vietnam	A	Banking	325,323	May 5, 1973.
International Chemical Fibers, Inc.: Chile	A	Polyesters	10,059	May 17, 1973.
Socomet, Inc.: Chile	A	Molybdenum	71,445	May 21, 1973.
Ensign Bickford Co.: Chile	A	Detonating	19,800	July 25, 1973.
Bank of America: Chile	A	Banking	2,010,272	July 27, 1973.
Georgia Pacific: Ecuador	B	Timber	100,000	Aug. 23, 1973.
Socomet, Inc.: Chile	B	Molydbenum	17,616	Sept. 12, 1973.
Johns-Manville Corp.: Chile	A	Asbestos	5,805	Oct. 2, 1973.
Fearn Foods, Inc.: Somalia	A	Fishing	327,123	Nov. 6, 1973.
Cabot Corp.: Argentina	B	Carbon black	1,000,000	Nov. 20, 1973.
GMAC: Dominican Republic	A	Auto lease	46,517	Nov. 28, 1973.
	A			
Total for 1973			5,362,175	
Bank of America: Vietnam	A	Banking	70,751	Mar. 29, 1974.
Bank of America: Chile	A	do	463,207	June 6, 1974.
Do	A	do	2,633,876	June 18, 1974
Vinnell Corp.: Bangladesh	C	Construction	12,500	Aug. 21, 1974.
William Atwell: Kenya	A	Tea plant	55,917	Aug. 16, 1974.
International Chemical, Inc.: Chile	B	Polyesters	103,000	Dec. 2, 1974.
Do	C	do	25,508	Do.
Total for 1974			3,364,759	
Bank of American: Vietnam	A	Banking	67,124	Apr. 15, 1975
McNally Pittsburg Manufacturing Corp.: India	A	Coal	58,076	July 8, 1975.
Total for 1975			125,200	

EXHIBIT E

CLAIMS RESOLVED SOLELY BY OPIC CASH SETTLEMENTS TO INSURED INVESTORS—Continued

[Types of claim: A—Inconvertibility, B—Expropriation, C—War damage]

Investor: Country	Type of claim	Industry	Amount paid	Date paid
Caltex (United Kingdom), Ltd.: Southern Rhodesia	A	Petroleum	60,000	Feb. 25, 1976.
Belbagco, Inc.: Bangladesh	B	Jute	860,000	July 15, 1976.
Do	C	do		Do.
Caltex (Asia), Ltd.: Vietnam	B	Petroleum	7,600	July 19, 1976.
International Dairy: Vietnam	B	Food processing	978,437	Dec. 27, 1976.
Celanese: Peru	A	Fibers	452,387	Dec. 29, 1976.
Total for 1976			2,358,424	
Cabot Corp.: Colombia	A	Carbon black	326,346	Jan. 21, 1977.
Construction Aggregates: Dominica	B	Construction	139,432	Sept. 15, 1977.
Total for 1977			465,778	
Chase International Investment Corp.: Zaire	A	Textiles	219,038	Aug. 16, 1978.
Union Carbide Corp.: Ghana	A	Batteries	250,673	Aug. 25, 1978.
Cabot Corp.: Colombia	A	Carbon black	215,558	Sep. 15, 1978.
Singer Sewing Machine Co.: Vietnam	B	Sewing machines	15,720	Sep. 28, 1978.
Total for 1978			700,989	
Chase International Investment Corp.: Zaire	A	Textiles	272,988	Feb. 16, 1979.
Union Carbide Corp.: Ghana	A	Batteries	143,798	Do.
Freeport Minerals: Indonesia	C	Mining	123,871	Do.
American Home Products: Turkey	A		85,999	Apr. 3, 1979.
Compania Minera del Madrigal: Peru	A	Mining	257,478	Jan. 23, 1979.
Firestone Tire & Rubber Co.: Ghana	A	Tires	869,275	Sep. 13, 1979
Do	A	do	833,214	Do.
Agricola Metal Corp.: Chad	B	Gum arabic	67,500	Sep. 15, 1989.
Goodyear Tire & Rubber Co.: Zaire	A	Tires	3,124,443	Sep. 26, 1979.
Do	A	do	928,723	Do.
Citibank: Zaire	A	Banking	500,000	Sep. 28, 1979.
Goodyear Tire & Rubber Co.: Zaire	A	Tires	118,486	Nov. 11, 1979.
Do	A	do	57,750	Do.
American Standard: Nicaragua	A	Vitreous ware	83,160	Dec. 14, 1979.
Union Carbide: Ghana	A	Batteries	143,944	Dec. 21, 1979.
Total for 1979			7,610,629	

EXHIBIT F

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., February 29, 1980.

B-197701

To the Board of Directors, Overseas Private Investment Corporation.

We have examined the balance sheets of the Overseas Private Investment Corporation as of September 30, 1979 and 1978, and the related statements of income, changes in capital and reserves and changes in financial position for the years then ended. Our examinations were made pursuant to the Government Corporation Control Act (31 U.S.C. 841 et seq.) and in accordance with Comptroller General standards for financial and compliance audits, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 5 of the accompanying financial statements, Section 235(c) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2195), established an Insurance and Guaranty Reserve for the respective discharge of liabilities under the Corporation's insurance and guaranty contracts. At September 30, 1979, these reserves totaled $519 million (Notes 6 and 7). In addition, Section 237(c) of the Act provides that the full faith and credit of the United States is pledged for the full payment and performance of the Corporation's insurance and guaranty liabilities. Thus, if claim settlements exceed available resources, Congress would have to appropriate funds to fulfill this pledge. Standing authority for such appropriations is contained in Section 235(f) of the Act.

In our opinion, the accompanying financial statements present fairly the financial position of the Overseas Private Investment Corporation as of September 30, 1979 and 1978, and the results of its operations, changes in its capital and reserves, and changes in its financial position for the years then ended in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method for accounting for claim settlements as described in Note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

ELMER B. STAATS,
Comptroller General
of the United States.

Attachment.

OVERSEAS PRIVATE INVESTMENT CORPORATION

	For year ended Sept. 30—	
	1979	1978
STATEMENT OF INCOME		
Revenues:		
Political risk insurance premiums	$30, 992, 954	$31, 069, 931
Less premiums on shared risks	4, 744, 124	5, 195, 973
	26, 248, 830	25, 873, 958
Investment guaranty fees	1, 692, 331	2, 353, 192
Direct investment interest	1, 464, 066	1, 331, 872
Other income	94, 617	306, 211
	29, 499, 844	29, 865, 233
Interest	38, 233, 808	30, 589, 449
Total, revenues	67, 733, 652	60, 454, 682
Expenses:		
Salaries and benefits	3, 847, 689	3, 468, 561
Loss on claim settlements (note 2):		
Political risk insurance	984, 482	
Investment guaranties	642, 830	
Provision for uncollectable DIF loans	1, 600, 000	1, 600, 000
Contractual services	1, 458, 381	1, 789, 362
Rent, communications, and utilities	609, 870	451, 818
Travel	326, 024	256, 189
Printing and supplies	216, 377	143, 699
Depreciation and amortization	42, 621	33, 062
Total, expenses	9, 728, 274	7, 742, 691
Net income	58, 005, 378	52, 711, 991
BALANCE SHEET		
Assets:		
Cash and investments:		
Cash	78, 856, 552	71, 498, 541
U.S. Treasury securities at cost plus accrued interest, which approximates market (note 3)	428, 489, 417	372, 159, 782
Total, cash and investments	507, 345, 969	443, 658, 323
Direct investment fund loans outstanding less allowance for uncollectable loans of $3,345,928 in 1979 and $3,600,000 in 1978 (note 4)	19, 602, 259	17, 920, 837
Accrued interest and fees	3, 122, 526	1, 256, 284
Accounts receivable	9, 626, 582	6, 078, 135
Prepaid reinsurance premiums	1, 070, 809	1, 172, 301
Furniture and fixtures at cost less depreciation of $174,258 in 1979 and $157,348 in 1978 and amortized leasehold improvements	195, 522	155, 775
Assets acquired in claims settlements (note 2)	62, 341, 421	5, 521, 820
Total, assets	603, 305, 088	475, 763, 475
Liabilities, capital and reserves:		
Liabilities:		
Accounts payable and accrued expenses	975, 947	1, 011, 837
Direct liabilities related to claims settlements	4, 706, 820	5, 521, 820
Participation in DIF loans	131, 054	680, 988
Unearned premiums	13, 285, 709	15, 553, 119
Fees held pending claims determinations	397, 008	2, 442, 739
Total, liabilities	19, 496, 538	25, 210, 503
Contingent liabilities (notes 6 and 7).		
Capital and reserves:		
Capital held by U.S. Treasury (note 4)	5, 0000, 000	50, 000, 000
Insurance reserve (notes 5 and 6)	405, 105, 172	283, 005, 916
Guaranty reserve (notes 5 and 7)	113, 489, 108	99, 965, 476
Retained earnings	15, 214, 270	17, 581, 580
Total, capital and reserves	583, 808, 550	450, 552, 972
Total, liabilities	603, 305, 088	475, 763, 475

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

	For the 2 yr. ended Sept. 30, 1979				
	Capital	Insurance reserve	Guaranty reserve	Retained earnings	Total
Balance, Sept. 30, 1977	$50,000,000	$229,947,943	$100,143,976	$4,869,589	$384,961,538
Net income				52,711,991	52,711,991
Payments on claims settlements		(69,340)	(1,249,305)		(1,318,645)
Recovered from prior year claims settlements (note 2)		14,127,283	70,805		14,198,088
Transferred from ertained earnings		39,000,000	1,000,000	(40,000,000)	0
Balance, Sept. 30, 1978	50,000,000	283,005,916	99,965,476	17,581,580	450,552,972
Cumulative effect on prior years of accounting change for claims settlements (note 2)		73,083,738	2,166,472		75,250,200
Net income		(984,482)	(642,830)	59,632,690	58,005,378
Transfers from retained earnings		50,000,000	12,000,000	(62,000,000)	
Balance, Sept. 30, 1979	50,000,000	405,105,172	113,489,108	15,214,270	583,808,550

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the year ended Sept. 30—	
	1979	1978
Source of funds:		
Net income	$58,005,378	$52,711,919
Depreciation and amortization	42,621	33,062
Provision for doubtful DIF loans	1,600,000	1,600,000
	59,647,999	54,345,053
Cumulative effect of change in accounting policy (note 2)	75,250,200	
Decrease (increase) in prepaid reinsurance	101,492	(384,487)
Net recoveries on claims settlements (note 2)		12,879,443
Total, funds	134,999,691	66,840,009
Application of funds:		
Net disbursement (reduction) on DIF loans	3,281,422	(1,606,078)
Additions to furniture and fixtures	82,368	17,144
Decrease (increase) in:		
Accounts payable and accrued expenses	35,890	880,215
Direct liabilities related to claims settlement	815,000	
Participation in DIF loans	549,934	878,059
Unearned premiums	2,267,410	(2,133,034)
Fees held pending claims determinations	2,045,731	(264,197)
Increase (decrease) in:		
Accrued interest and fees	1,866,242	(546,329)
Accounts receivable	3,548,447	339,238
Assets acquired in claims settlements	56,819,601	
Total, application of funds	71,312,045	(2,434,982)
Increase in cash and investments	63,687,646	69,274,991

The accompanying notes are an integral part of this schedule.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies are summarized below:

Revenue recognition: Revenue from political risk insurance is recorded on a pro-rata basis over the contract period. All
her revenue is recognized when earned in accordance with generally accepted accounting principles.

Valuation of assets acquired in claims settlements: Debt of a foreign government acquired in the settlement of a claim is
lued at the lower of its present value or the cost of acquisition. All other assets acquired in claims settlements are
lued at the lower of management's estimate of the present value of the recovery on the asset or the cost of
quisition. Present value is determined at the time of acquisition using the composite yield for all U.S. Government secu-
ies.

Depreciation and amortization: Furniture and fixtures are depreciated on a straight-line basis over a 10-year life. Lease-
ld improvements are amortized over the life of the related lease.

NOTE 2: CHANGE IN ACCOUNTING PRINCIPLE

Prior to fiscal year 1979, payments to investors on claims settlements were charged directly to the applicable insurance
guaranty reserve. Recoveries made in the course of liquidating assets acquired in the settlement of claims were credited
the reserve against which the related claims payments were charge assets acquired in connection with claims settle-

ments were not recognized on the balance sheet, but were reflected in the notes to the financial statements. Effective Oct. 1, 1978, OPIC adopted the policy of recognizing assets acquired in claims settlements in the balance sheet and the net loss on claims settlements as a reduction in earnings. Such losses reflect the net amount by which claims settlement payments exceed the value of the assets acquired in connection with such settlements. The effect of this change in policy was to increase the insurance reserve by $56,200,000 and the guaranty reserve by $3,200,000 at Sept. 30, 1979. The assets acquired in claims settlements was composed primarily of obligations of the Government of Chile.

NOTE 3: INVESTMENTS IN U.S. TREASURY SECURITIES

In conformance with sec. 239(d) of the Foreign Assistance Act of 1961, as amended (FAA), investments in U.S. Treasury securities are limited to funds derived from fees and other revenues. The funds available for investment were $419,401,855 and $364,043,736 at Sept. 30, 1979 and 1978 respectively. Of these funds $418,982,373 and $364,043,185 respectively, represent the original cost of investments included in the balance sheet.

NOTE 4: DIRECT INVESTMENT FUND

The FAA authorized the establishment of a direct investment fund (DIF), that consisted initially of the $40,000,000 paid in as capital of the corporation, to make loans on terms and conditions established by OPIC. The DIF is charged with realized losses and credited with realized gains and such additional sums as determined by the Board of Directors. OPIC has increased the DIF by $10,000,000 in connection with the transfer of $10,000,000 from retained earnings to capital held by U.S. Treasury.

The status of the DIF was as follows, in millions:

	Sept. 30—	
	1979	1978
Appropriated DIF capital	$40.0	$40.0
Transfer from earnings	10.0	10.0
Net losses	(4.9)	(3.3)
Uncommitted funds	(18.6)	(15.0)
Outstanding commitments	26.5	31.7
Undisbursed portion	(3.7)	(10.9)
Net loans outstanding	22.8	20.8

Proceeds received from the sale of participations were credited to the DIF for further lending in accordance with secs. 231(c), 235(b), and 239(d) of the FAA. The figures above are net of such participations, which amounted to $131,054 and $680,988 at Sept. 30, 1979 and 1978 respectively. Pursuant to provisions of secs. 239(d) and 234(b) of the FAA, OPIC has guaranteed full payment of the participated portion of DIF loans. This liability for outstanding participations is included in the amount of investment guaranty outstanding (note 7).

NOTE 5. STATUTORY RESERVES AND FULL FAITH AND CREDIT

Sec. 235(c) of FAA established a fund with separate accounts known as the insurance reserve and the guaranty reserve for the respective discharge of liabilities under investment insurance and under guaranties issued under sec. 234(b) of the FAA and similar predecessor guaranty authority. Both reserves may be replenished or increased by transfers from retained earnings or by new congressional appropriations. Retained earnings at Sept. 30, 1979, available for transfer to the insurance or guaranty reserve, were $15,214,270.

Should funds at any time not be sufficient to discharge obligations arising under investment insurance or guaranties, as the case may be, Congress would have to appropriate funds to fulfill the pledge of full faith and credit to which such obligations are entitled. Standing authority for such appropriations is contained in sec. 235(f) of the FAA.

All investment insurance given by OPIC, all guaranties given by OPIC in connection with the settlement of claims under investment insurance and all guaranties referred to in the first paragraph above constitute obligations of the United States of America. The full faith and credit of the United States of America is pledged for the full payment and performance of such obligations.

NOTE 6: INSURANCE RESERVES

The insurance reserve at Sept. 30, 1979, totaled $405,105,172. Charges against the insurance reserve could arise from contingent obligations under (A) guaranties issued in settlement of claims arising under investment insurance contracts, (B) pending claims under investment insurance contracts, (C) unresolved disputed claims, and (D) outstanding investment insurance contracts. These 4 categories of contingent obligations are discussed in more detail in the balance of this note.

(A) Claims settlement guaranties.

Pursuant to secs. 237(i) and 239(d) of the FAA, OPIC has in some instances settled claims arising under investment insurance contracts by issuing payment guaranties of host government obligations. These claims settlement guaranties represent contingent obligations backed by the insurance reserve.

The contingent liability at Sept. 30, 1979, under these guaranties, including liability as to interest, was $156,086,000. If the principal obligors default in full, and if OPIC does not exercise certain prepayment rights, OPIC would be liable during the following fiscal years for the following amounts, in thousands:

	Contingent liability
Fiscal year:	
1980	$23,065
1981	30,344
1982	36,494
1983	32,269
1984-88	33,914
Total	156,086

Of the total contingent liability under claims settlement guaranties, $144,072,715 represents guaranties of obligations ither incurred by the Government of Chile in compensation agreements with OPIC insureds or recognized by the Government of Chile in respect of debt previously insured by OPIC.

Also, in connection with the settlement of 1 claim, OPIC entered into an indemnity agreement with an insured in 1978 hich could result in OPIC liability of up to $8,000,000.

B) Pending claims.

OPIC follows a policy of recording investment insurance contract claims as financial liabilities only upon determination hat a liability exists and where the amount of such liability can be reasonably estimated. In the case of most expropriaion claims, the expropriatory action must continue for a period of 1 year before the claim matures. Formal applications or compensation are generally filed only with respect to mature claims and specify the particular events which have ccurred and which, in the opinion of the investor, subject OPIC to liability.

The total amount of compensation requested in connection with formal applications for which no determination has et been made is approximately $15,000,000. There are 11 claims filed under inconvertibility coverage, 6 under expropriaion, 1 under war/revolution/insurrection, and 1 under expropriation and/or inconvertibilty.

In addition to requiring formal applications for claimed compensation, the contracts require investors to notify OPIC romptly of host government action which the investor has reason to believe is or may become an expropriatory action. areful investor compliance with this notice provision will sometimes result in their filing notice of events that do not ature into expropriatory actions.

The highly speculative nature of these notices both as to the likelihood that the event referred to will constitute exproriatory action and the amount of compensation, if any, that may become due leads OPIC to follow a consistent policy of aking no reference to such notices in its financial statement. Any claims that might arise from these situations are, of ourse, encompassed in management's estimate that maximum potential exposure, prior to reinsurance, under existing nvestment insurance contracts is $3,200,000,000 (note 6D).

C) Unresolved disputed claims.

The claim of Revere Copper and Brass, Inc. (Revere) for expropriatory action arising from an investment in Jamaica, hich, in accordance with the insurance contract had been submitted to arbitration for a final decision, was decided on ug. 24, 1978. 2 of 3 neutral arbitrators found OPIC liable to Revere. The arbitrators finding liability set compensation t $1,131,144 plus expenses of arbitration, rather than the more than $90,000,000 claimed by Revere. On Sept. 26, 1978, evere filed a motion in Federal district court in the District of Columbia to modify or vacate that portion of the arbitral ward fixing the amount of compensation. By a Dec. 8, 1978, order, the court denied Revere's motion. Revere appealed the ecision to the U.S. Court of Appeals for the District of Columbia. By a Feb. 26, 1980, decision, the judgment at the district ourt was affirmed. Revere has until May 26, 1980, to apply to the U.S. Supreme Court for appellate review.

D) Political risk investment insurance.

OPIC issues investment insurance under limits fixed by the legislative authorization in the FAA and prior authorities. he utilization of these authorized amounts at Sept. 30, 1979 (excluding obligations under guaranties issued in settlement f claims) was as follows, in millions:

	Total	Uncommitted	Outstanding
Prior authorities	$2,427		$2,427
FAA, sec. 235	7,500	$4,337	3,163
Total	9,927	4,337	5,590

OPIC, as did its predecessors, insures the same investment against 3 different risks (inconvertibility of currency; exropriation; and war, revolution, or insurrection). Under some contracts issued by predecessors, theoretically an investor ould make successive claims under more than 1 coverage with respect to the same investment, thereby collecting agregate compensation exceeding any single coverage amount. The outstanding amount reflects this theoretical possiility and in addition includes provision for insurance as to which OPIC is not currently at risk but is contractually obligated provide upon the investor's future request to cover increases in retained earnings and accrued interest.

The outstanding amount pursuant to legislative authorizations is of little use in evaluating realistically the maximum xposure at Sept. 30, 1979, to insurance claims, because it includes insurance for which OPIC is not currently at risk and ecause it is improbable that multiple payments would be made for each investment. Management believes that a more ccurate representation of maximum potential exposure to future claims arising from existing investment insurance conacts can be obtained by assuming that only 1 claim would be brought under each contract and that the coverage under hich the claim would be brought would be the coverage with the highest amount of current insurance in force. Based on is assumption, management believes the maximum potential liability to claims at Sept. 30, 1979, is $3.2 billion.

NOTE 7: GUARANTY RESERVE

The guaranty reserve at Sept. 30, 1979, totaled $113,489,108 and OPIC has cash and U.S. Treasury securities in excess f this amount. Sec. 235 of the FAA requires OPIC to have, at the time OPIC commits itself to issue any guaranty under ec. 234(b) of the FAA, a guaranty reserve equal to at least 25 percent of guaranties then issued and outstanding or comitted under 234(b) and prior authorities. At Sept. 30, 1979, the guaranty reserve exceeded by $74.4 million the required inimum reserve. (See note 5 for description of the guaranty reserve and full faith and credit status of guaranties.) Guarnties under prior authorities and sec. 234(b) of the FAA include guaranties of debt, equity, and participation DIF loans. The outstanding commitments at Sept. 30, 1979, were as follows, in millions:

	Prior authority	FAA 234(b) and 235	Total
egislative authorization	$21	$750.0	$771.0
ncommitted		614.8	614.8
Total, outstanding commitments	21	135.2	156.2
urrently at risk, net of payments	21.0	71.1	92.1

EXHIBIT G

MEMORANDUM

For the Board of Directors.

APRIL 24, 1978.

Subject: Revised procedures for developmental impact assessment.

REASON FOR SUBMISSION TO THE BOARD

OPIC's developmental mandate and the effectiveness of OPIC and the projects it encourages in furthering broad socio-economic development were the subject of congressional concern during the recent legislative extension process. The new legislation reaffirms and clarifies the primacy of OPIC's developmental purpose, gives specific guidance for a more detailed developmental analysis of individual projects, and requires a more detailed and complete annual report to the Congress on the developmental impact of OPIC's activities and projects.

This paper informs the Board of the steps Management intends to take to be responsive to these Congressional directives. Relevant sections of the new legislation and committee reports are attached at Annex A.

DISCUSSION

Throughout the legislative review and extension process, and based on OPIC's record of projects assisted and the information provided to the Congress regarding the developmental impact of these projects, some congressmen and committee staff personnel voiced skepticism as to the developmental value of private investments supported by OPIC. Some members expressed a narrow view of what constitutes "development." Numerous congressmen, including some favorable to the program, were critical of what they considered to be the lack of sufficient detailed evidence to permit assessment of OPIC's developmental impact.

While both the Senate and House of Representatives rejected the application of a "basic human needs" criterion for OPIC support of private investment projects, they did call for greater selectivity in project promotion and efforts by OPIC to influence project plans so that OPIC programs will better complement other U.S. Government development efforts that directly address these needs.

The Congress legislatively expressed its concerns in the following manner:

1. Emphasizing the primacy of OPIC's developmental mandate

The Congress amended section 231 by adding a new paragraph ahead of the present listing of policy guidelines to establish as the two primary operating principles of OPIC the furtherance of development and an emphasis on the poorest countries. This latter point represents a codification of OPIC's Board of Directors policy to concentrate on the lowest income countries and restrict its operations in the higher income LDCs. The law and clarifying report language leave discretion to the Board as to exceptional projects in the restricted countries. The law defines these two categories of countries as the Board defined them in its Resolution BDR(77)26. (While declaring "development" to be OPIC's primary objective, the Congress also directed vigorous expansion of OPIC's assistance to smaller U.S. businesses and evidenced no lessening of concern that OPIC's overall operations remain financially self-sustaining.)

2. Greater concern for the developmental impact of individual projects.

The new statute (Section 239(i)) require OPIC to

". . . prepare and maintain for each investment project it insures, finances, or reinsures, a development impact profile consisting of data appropriate to measure the projected and actual effects of such project on development. Criteria for evaluating projects shall be developed in consultation with the Agency for International Development."

The report of the House International Relations Committee states:

"The committee is far from satisfied that OPIC is effective at carrying out its purpose of promoting social and economic development in a way which complements the development assistance objectives of the United States. The data provided by OPIC are inadequate for gaging OPIC's developmental impact. . . . Most important, Congress has failed to provide OPIC with adequate guidelines on what is intended by the development mandate and how OPIC can best complement the development assistance objectives of the United States, particularly those embodied in the New Directions. . . ."

The Senate Foreign Relations Committee report similarly stated:

"The committee believes that in carrying out its developmental mandate, OPIC should make a major effort to sharpen its criteria for selecting projects with maximum developmental impact. . . . The committee does not expect OPIC to conform to the new directions mandate of the AID program, because U.S. private investment cannot be forced to follow the same criteria laid down for the use of public funds. Instead, OPIC should encourage the sort of private investment that complements the AID program. There are many ways in which private investment can work in harmony with a basic human needs strategy of development, and maximum attention needs to be devoted to relating the two . . ."

The House of Representatives included in its originally passed version of the bill a "checklist" of developmental criteria for use by OPIC in evaluating individual projects. This checklist was placed in the bill in the belief that OPIC did not adequately consider many developmental aspects of a project in deciding whether or not to encourage it and did not discuss these aspects when reporting on the achievements or impact of its programs to the Congress. While sharing some of the same concerns, the Senate did not consider the inclusion of such a checklist in the law to be appropriate. Such an illustrative list was included, however, in the report of the Senate-House conference committee.

This guidance checklist implies a high priority for assisting projects that will benefit directly the "poor majority," particularly in rural areas; produce goods and services of primary benefit to the poor majority; increase food supply or distribution; maximize the local content of end products; and maximize positive involvement in the local community. Other concerns included many routinely considered by OPIC, such as increasing employment and improving host government revenues and foreign exchange positions. Importantly, the checklist also expresses serious concern for possible negative effects of investment projects, such as displacing employment in the "traditional" sectors of an economy or increasing existing disparities (urban/rural, rich/poor, etc.). Both the House and Senate committee reports recognized that this list is illustrative and non-inclusive, and that various of its items may not be relevant for analyzing certain types of projects.

3. *Reporting*

The development impact profile is to consist of data appropriate to measure the projected and actual effects of an individual project on development. OPIC is required to undertake a selective program of project monitoring and periodic "updating" of profiles after projects become operational. The Congress recognized that OPIC must have flexibility to adapt its project profile and monitoring requirements to the size of the investor, the size of the project, whether or not the investor controls the project, and the relative importance of special factors in the decision to support the project.

The law requires OPIC to include in its annual report an assessment, based upon the profiles, of the development impact of its projects and an analysis "of the extent to which the operations of OPIC complement or are compatible with the development assistance programs of the United States and other donors."

In setting forth this requirement for profiles and an annual development impact assessment report, members of the Conference Committee recognized the applicability of provisions in the Freedom of Information Act permitting OPIC to maintain the confidentiality of privileged business information.

IMPLEMENTATION RESPONSIBILITIES

The Vice-President of the relevant operating department, Insurance or Finance, will have primary responsibility for preparing development impact profiles. Project officers will consult and obtain the assistance of the Office of Development, including the proposed Economic Impact Analysis unit, in this work. The Vice-President for Development will have primary responsibility for maintaining aggregate records of the development effects of OPIC programs and for preparing the summary annual report to Congress on this subject.

The Offices of Development and Treasurer will collaborate in establishing additional procedures to compile and store developmental information on active projects.

The Executive Vice President will direct an expanded system of selective monitoring of developmental effects of active projects, as a function of the existing Project Monitoring Committee.

ANNEX A.—CONFERENCE REPORT

August 4, 1978

OPIC PROJECT DEVELOPMENT IMPACT ASSESSMENT

I. INTRODUCTION

In accordance with a memorandum entitled "Revised Procedures for Developmental Impact Assessment" which was submitted to the OPIC Board of Directors on April 24, 1978, we attach instructions for the preparation of Development Impact Profiles. This follows changes in the OPIC legislation which reaffirm and clarify the primacy of OPIC's developmental purposes and give specific guidance for a more detailed development analysis of individual projects. The changes also require a more detailed and comprehensive annual report to the Congress on the developmental impact of OPIC's activities and projects.

OPIC is now required to prepare and maintain for each investment project it insures, finances or reinsures a development impact profile consisting of data appropriate to measure the impact of such project on the host country's economic and social development. In accordance with the legislation, the criteria set forth below have been developed in consultation with the Agency for International Development. Responsibility for preparing the profile lies with the individual project officer and his or her department. The Economic Impact Analysis Unit in the Office of Development is established to provide guidance and assistance to project officers in the preparation and analysis of profiles. OPIC's Board policy states that project officers "will consult with and obtain the assistance of the Office of Development . . . in his work". The Economic Impact Analysis Unit also will review individual profiles of OPIC-approved projects for completeness.

Each project profile should consist of brief, cogent descriptions of the positive and/or negative developmental effects of the project. Flowing prose should be avoided, but the complete nature and extent of the impact should be made clear to the maximum extent possible, and quantified in at least those areas indicated (in accordance with Appendix A). Any potential effects of a project that do not fit easily into one of the headings should be placed at the end of the profile in a section labeled "Other effects."

If a project does not have a positive or negative impact of the type set forth in a section, that section should be indicated as "not applicable" or "none."

In the case of small projects or investments by small companies a less intensive analysis might be justified where the project is too small to have identifiable forward or backward linkages or the obtaining of certain information would be unduly burdensome to the Investor. For such cases there should be a profile and analysis adequate to present the nature and extent of any direct impact (both positive and negative). Each analysis should include, as appropriate, consideration of each of the listed factors. In cases where more than one Investor will be insured or financed for a single project, a single development impact profile will suffice for the entire project and information should be obtained from the principal investor or the largest company.

Appendix A is a comprehensive list of suggested questions to be considered in the preparation of individual project profiles. This may help to focus the drafter's attention on different aspects of a project.

Appendix B is a Board paper with its attachments covering the legislation and legislative history on development impact profiles. The development impact profiles supersede the previous developmental effects analysis and Addendum No. 2 to the Action Memorandum ("Development Effects Work Sheet"), which should no longer be used.

APPENDIX A.—LIST OF POSSIBLE CRITERIA FOR ANALYZING DEVELOPMENTAL IMPACT OF PROPOSED PROJECTS

Set forth below are some of the more specific criteria that may be used in evaluating the positive, neutral, and/or negative developmental impact of a proposed project. These criteria are illustrative and not applicable to every project. There may be other important developmental benefits and/or shortcomings related to a project, and these should be included in any analysis of that project. Few projects, however, will relate to all of the listed criteria. To ensure consistency, project officers should utilise the procedures set forth below in quantifying various impacts of individual projects.

SPECIFIC CRITERIA

1. Project description

(a) Host country GNP per capita?

(b) What goods or services does the project produce or supply—new enterprise or expansion of existing one?

(c) Will this project expand a relatively small foreign and/or U.S. investment presence in the country?

2. Net impact on local employment

(a) Number of local persons employed (fifth year of operation);[1] at what levels? (unskilled, managerial, etc.)[1]

(b) Will any traditional industries be harmed and their workers likely to lose their employment?

(c) Capital/employment ratio.[1] Is the project labor intensive? (Capital/employment ratio of $10,000 or less). Will the project take any specific action to make it less capital-intensive?

Capital/employment ratio: Ratio of long-term capital employed by the project from all investors in all forms (cash, equipment, etc.) to total number of direct employees in fifth year. Also, in a separate figure, if possible include indirect employees, such as contract farmers, benefiting from project.

(d) Will the project cause a significant increase in the earnings potential of the local employees?

(e) What will be the employment impact in other firms or earnings impact on local farmers, artisans selling to tourists, etc., of forward and backward linkages identified in section 4? (Attempt to quantify if possible. For example. "Perhaps 50 additional workers" or "approximately $250/year additional income for 50 farm families.")[1]

3. Transfer to local employees of technology and basic business knowledge and skills and increases in local worker productivity

(a) The extent of the worker training programs.[1] How many people are being trained at what levels (managerial, technical/professional, basic production labor) for both initial training and continuing employee upgrading programs.

Programs for advancement of locals into technical and higher management positions?

Will the projects include assistance to "suppliers or buyers," such as farmers, in such a way that their skills/productivity will be increased?

(b) Type and level of skills to be transferred.—Basic management, international marketing, quality control, etc.

Is the project of a type that could not easily be undertaken by local investors? Are technologies new to the country involved? Are they relatively high?

Does the project attempt to adapt or innovate technology to make it appropriate to local labor conditions, availability of labor or local resources, etc.? Does the project include "appropriate" or "light capital" technology?

4. Stimulation of local enterprises to supply products or services to or process the output of the projects (multiplier effect)

(a) To what degree will this project encourage or facilitate additional local business activities?

Supply the project with raw materials, packaging, semi-finished products, services (will the investor actively assist local suppliers to "get started," expand, or improve quality of supplies?)

Will there be any local use of the output for further processing or assembly?

Will the project provide technical or other assistance to suppliers or users of the output, through such efforts as agricultural extension services?

Will the project assist local suppliers through contractual arrangements, such as "guaranteed purchase agreements" with local small-holder farmers in the region?

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[1] Quantify anticipated impact.

To what extent will raw materials or commodities be processed locally or exported in a relatively "raw" state?

Will the product produced enhance local productivity, lower costs,[1] or increase availability of other items, without being used directly by other businesses? (fertilizers and pesticides, building materials, farm equipment, cement, cold storage warehousing facilities, etc.)

Indicate responses to questions III.G.1 and III.G.2 in the Insurance Formal Application.

Will the project open up entirely new cash markets for local products through the creation of domestic or export demands?

Local ownership and other capital mobilization?[1]

Indicate percentage of local ownership both initially and after any planned "phased transfer" of foreign ownership to local ownership (indicating number of years). Indicate amount of local capital (all sources except those controlled by investor, such as his share of retained earnings) mobilized by project and the amount of third country, other U.S. (non-investor), and multilateral capital mobilized for project.

Does the investment agreement include monopoly clauses, special protections, high tariffs, etc., which could be a disincentive to local enterprise stimulation?

(New quantitative restrictions and/or more than 50% tariff duties on competing imports with duration or negotiated protection of 8 years or more shall be considered to have an adverse developmental impact.)

(b) Is the project complementary or supplementary to the country's economy.

Does the project help meet the need for basic economic infrastructure in the country or region? (For example, port or road improvements, international class hotels, telephone or communications facilities, mechanical or other types of repair/service facilities, or business or trade credit/financing facilities.)

Will the project introduce a new product to the nation or help reduce a shortage of some item? Will it remove a "bottleneck" to greater domestic activity? Will it expand productive use of an under-utilized resource?

Will the project involve research facilities for adaptation of products, processes, crops, etc., to local conditions?

5. The contribution to host government's revenues

(a) The net impact on the host government's revenues (direct and indirect taxes, dividends, fees, etc.).[1]

Indicate answer to question III.B.1. in the Insurance Formal Application, modified as appropriate to include any host government revenues or revenue losses from dividends, interest paid to local developing banks, or other revenues not included in "taxes and duties."

(b) Will the project itself provide items such as roads, power, etc., and make them available for general public use, thus obviating the need for the government to provide these items?

Will the project require the host government to expend large sums of money for new roads, railroads, power generation, etc., reducing the amount of funds available for other items or general public benefit?

(c) Will the project enjoy excessive tax benefits (more than 8 years)?

6. The effect on the country's foreign exchange position

(a) The net foreign exchange impact.[1] Indicate response to III.D.5. in the Insurance Formal Application.

(b) For foreign exchange deficit countries, does the project develop new export products or markets or replace previously imported items?

(c) How serious has a shortage of foreign exchange been in the country previously? Has it ever caused the need for severe government austerity measures?

7. The effect on the degree of concentration of ownership of the project, land and other productive resources

(a) Extent of foreign or local ownership of land and other resources (including ownership of project, joint ventures, phase-out agreements, etc.)

(b) Will the project stimulate the expansion of small businesses, artisans and handicrafters, farmers, etc.?

(c) Is land ownership a critical issue in the country? Is land a "scarce" item (i.e. small or overcrowded country)?

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[1] Quantify anticipated impact.

Is land ownership concentrated (large plantations, large seaside resorts with unutilized land, huge forest or mining reserves that will not be needed for several decades)? Does the project seek to help small landholders, farmers, etc.?

(d) Will the project make credit available to people previously unable to obtain it?

(e) Will the project involve only the local established business elites or will it provide an opportunity for more widespread business ownership, etc.?

8. Proposed social benefits to be offered in community in which project located

(a) Will these facilities be provided by the project and be available to workers, their dependents, and/or the general public?

Hospitals, health clinics, nurseries;
Meals;
Support for schools, adult education, extension services, scholarships;
Electricity, potable water;
Housing;
Credit unions or other credit facilities;
Personal hygiene and nutrition education or assistance;
Community centers, churches, social facilities, sports associations;
Transportation services (e.g. busses between work and nearest town, etc.)

9. Complementarity with other development assistance programs

(a) Is the project supportive of a specific host country development plan, initiative, priority, etc.?

(b) Will the project complement, supplement, be neutral towards, or hinder other foreign assistance programs of the United States or other donors, bilateral or multilateral? This relationship could be either direct or indirect and either specific or general. For example:

Is the IFC participating in the project? Is AID helping (e.g. through irrigation or credit) small farmers who will utilize the services or products or the project (e.g. fertilizer, warehousing). Is the project located in an area currently receiving AID funds for rural development efforts? Will the project complement an IBRD nutrition improvement program?

Will the project be a major consumer of electricity in a nation with inadequate electric generation capacity and a major IBRD effort underway to increase that capacity? If so, will the project have its own generation capacity or rely on the public sources of power?

(c) The effect on the supply of basic foodstuffs and other goods necessary to meet basic human needs of the population.

Will the project lower the cost or increase the availability of items for the "poor majority"?

The production, growing, catching, etc., of food consumed by lower income people.

The production or supply of inputs for agriculture, fishing, and other food supply projects or the processing or distribution of food supplies;

(1) Fertilizers, pesticides, irrigation equipment, tools and equipment for smaller farmers, storage equipment, fishing projects or supplies.
(2) Cattle breeding and upgrading, seed growing, etc.
(3) Agricultural credit facilities.
(4) Processing of locally produced food items.
(5) Improved domestic marketing or international marketing to other LDCs.

Will the project involve the introduction of new crops, new uses of traditional crops, the utilization of by-products of food industries (e.g. bagasse, hides) thereby increasing farm income and production of food items, etc.?

In non-food items, basic human needs include:

(1) Health and nutrition (pharmaceuticals, primary health care and supplies, potable water, improvements to local diets, etc.)
(2) Adequate housing (low cost building products, rural projects with worker housing, credit facilities, etc.)
(3) Adequate clothing.
(4) Basic education, including basic "extension" work.

(d) The effects on the lives of the poor, their access to their economy, and their capacity to participate in the development of their countries.

How does the project affect the members of the so-called "poor majority":

(1) Will the people hired include unemployed, unskilled or underemployed workers?
(2) Will the project benefit small farmers?

(3) Will the products of the project be usable by the poor to improve their lives? at lower cost than before?

(4) Will the project open up outlets for local handicrafts or other products to be sold?

(5) Will the project provide credit facilities for people for whom credit is not readily available?

(6) Will the project provide basic infrastructure available to poorer peoples, such as roads, electricity, schools, clinics, flood control facilities, drinking water, etc.?

(7) Will the project "open up" previously isolated areas? Diversify the economy of an area, increasing employment and small business opportunities?

(8) Will the project support specific host government programs to benefit various ethnic, religious, linguistic, racial, etc. groups?

(9) Will the primary impact of the project be on and for the "elite" of the country?

(10) Will there be employee stock ownership or profit sharing plans?

(11) What provisions or mechanisms are there in the project for participation or consultation with the poor with respect to decisionmaking concerning the project?

(e) Decentralization of economic activity and the flow of resources into the small towns and rural areas.

Direct and indirect impact:

(1) Is the project located away from the more modern areas or cities?

(2) Does the project provide jobs and opportunities in rural areas? Does it provide markets for new agricultural crops or products?

(3) Is the project in an area targeted by the host government for special developmental assistance? Does the area have a GNP per capita below the national average?

(4) Will the project help to "open up" rural areas through the provision of roads, local electric power generation, etc.?

10. Effect on the environment and worker health/safety

(a) Air, water, noise emissions, soil erosion.

(b) Health or safety of workers and people living in project area.

(c) Wildlife, crops, fish, endangered species.

(d) Are modern preventive or reclamative measures being employed? (Scientific forestry, land rehabilitation after mining, etc.)

(e) Despoiling of natural beauty in areas with tourist potential.

(f) Does the project make a positive contribution to the environment, is it neutral or have no impact, or does it have a negative impact?

11. Other effects

(a) Unique or special aspects:

Unique or innovative projects particularly responsive to the special needs, conditions, or resources of a developing nation or projects that appear to hold the promise of an important trail-blazing role. The officers should consider the alternative to the proposed project, i.e., what would likely happen in the absence of this project? (Does the project hold the promise of a unique developmental opportunity?) Examples:

Is it the first project to develop new products or introduce new cash crops or is it to be the fifth textile sewing operation in the nation?

Is this project one of the few that would be located in a remote area and contribute to its development? (Small farmer assistance, the introduction of tourism, etc.)

(b) Other.

DEVELOPMENT IMPACT PROFILE

Investor:
Country:
Foreign Enterprise:
Contract No.:

1. *Project description.*—Host Country GNP per capita; new project or expansion? Type of project; products or services supplied?

2. *Employment.*—Number of persons employed (fifth year of operation).[1]

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[1] Quantify anticipated impact in accordance with instructions in Appendix A to Development Impact Assessment memo of August 4, 1978.

	Management	Profession/Technician	Labor
Local expatriate			
Total			
Grand total			

The Capital/employment ratio[1]: Increased employment or earnings in other areas of economy as a result of projects?[1]

3. *Skills transfer and productivity.*—Types and levels of skills to be transferred. Extent of worker training.[1]

4. *Local enterprise stimulation (multiplier effect).*—Forward or backward linkages. Processing of local materials?

Effect on local prices[1]; effect on product quality/availability in local market[1]; local capital mobilization[1]; local ownership and "transfer" plans[1]; monopoly clauses or tariff protection?

5. *Host government revenues.*—Net impact on host government revenues.[1]

6. *Foreign exchange impact.*—Net foreign exchange impact.[1]

7. *Ownership of project/resources.*—Local participation in project. Effect on other locally owned businesses, farmers.

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[1] Quantify anticipated impact in accordance with instructions in Appendix A to Development Impact Assessment memo of August 4, 1978.

EXHIBIT H

OPIC SPONSORED CONFERENCES SCHEDULED IN 1978 THROUGH 1980

Location	Date	Conference
Alabama: Montgomery	May 21, 1979	Small Business Conference.
Arizona: Phoenix	Apr. 3, 1979	Do.
California:		
Long Beach	Mar. 27, 1979	Do.
Los Angeles	Mar. 29, 1978	Do.
Do	Nov. 29, 1979	OPIC Investment Seminar.
Do	Oct. 15, 1980	Small Business Conference.
Palo Alto	Mar. 28, 1979	Do.
San Francisco	Apr. 19, 1979	Agribusiness Conference.
Do	Oct. 14, 1980	
Colorado:		
Denver	Nov. 9, 1978	Small Business Conference
Do	Mar. 18, 1980	Do.
Connecticut: New Haven	Sept. 28, 1979	Do.
Delaware: Wilmington	Sept. 27, 1979	Do.
District of Columbia	June 26, 1980	OPIC Investment Seminar.
Florida:		
Jacksonville	Mar. 25, 1980	Small Business Conference.
Miami	Mar. 27, 1980	OPIC Investment Seminar.
Do	Mar. 15, 1979	Small Business Conference.
Orlando	Oct. 18, 1979	Agribusiness Conference.
Do	Sept. 20, 1978	Small Business Conference.
Georgia:		
Atlanta	May 31, 1979	Agribusiness Conference.
Do	Mar. 29, 1978	Small Business Conference.
Tifton	Sept. 13, 1978	Do.
Illinois:		
Chicago	May 22, 1980	OPIC Investment Seninar.
Do	May 23, 1979	Small Business Conference.
Do	May 23, 1978	Do.
Springfield	Sept. 13, 1979	Agribusiness Conference.
Indiana:		
Indianapolis	Sept. 19, 1979	Small Business Conference.
South Bend	Sept. 12, 1978	Do.
Iowa:		
Cedar Rapids	Sept. 18, 1979	Do.
Des Moines	May 2, 1978	Agribusiness Conference.
Kansas: Witchita	June 19, 1979	Small Business Conference.
Kentucky: Fort Mitchell	Mar. 23, 1979	Do.
Louisiana:		
New Orleans	June 22, 1978	Do.
Do	Sept. 18, 1980	OPIC Investment Seminar.
Maryland: Baltimore	Apr. 25, 1979	Small Business Conference.
Massachusetts:		
Boston	Mar. 29, 1979	Do.
Springfield	Nov. 15, 1979	Small Business Conference.
Waltham	Apr. 25, 1979	OPIC Investment Seminar.

EXHIBIT H—Continued

OPIC SPONSORED CONFERENCES SCHEDULED IN 1978 THROUGH 1980—Continued

Location	Date	Conference
Michigan:		
Detroit	Oct. 4, 1978	Small Business Conference.
Do	Nov 13, 1980	Do.
Grand Rapids	May 10, 1979	Do.
Minnesota:		
Minneapolis	Nov. 29, 1978	Do.
Do	Sept. 30, 1980	Do.
Missouri:		
St. Louis	Apr. 8, 1980	Minority Small Business.
Do	Mar. 7, 1979	Small Business Confernece.
Nebraska: Lincoln	Sept. 8, 1978	Do.
Nebraska: Reno	Mar. 8, 1979	Do.
New Jersey: Newark	Sept. 27, 1978	Do.
New Mexico: Albuquerque	July 25, 1978	Do.
New York:		
New York City	June 10, 1980	Minority Small Business.
Do	June 12, 1980	OPIC Investmant Seminar.
Woodbury	June 21, 1979	Small Business Conference.
North Carolina: Winston Salem	Oct. 17, 1978	Do.
Ohio:		
Cincinnati	Nov. 1, 1978	Do.
Cleveland	Mar. 30, 1978	Do.
Columbus	Jan. 17, 1980	Argibusiness Conference.
Oklahoma: Oklahoma City	May 23, 1979	Small Business Conference.
Oregon:		
Portland	May 19, 1980	Do.
Do	Sept. 21, 1978	Do.
Pennsylvania:		
Erie	Sept. 9, 1979	Do.
Philadelphia	June 13, 1979	Do.
Do	Date not determined	Do.
Pittsburgh	Nov. 8, 1979	Do.
Wilkes-Barre	Feb. 23, 1979	Do.
Puerto Rico: San Juan	Nov. 13, 1980	Do.
Rhode Island: Providence	May 21, 1979	Do.
South Carolina: Greenville	Sept. 14, 1979	Do.
Tennessee: Nashville	May 23, 1979	Do.
Texas:		
Dallas	Mar. 28, 1979	Do.
Do	Mar. 29, 1978	Do.
Houston	Nov. 27, 1978	OPIC Investment Seminar.
Do	Oct. 12, 1978	Seall Business Conference.
San Antonio	Apr. 16, 1980	Do.
Utah: Salt Lake City	Mar. 7, 1979	Do.
Virginia: Richmond	Apr. 24, 1979	Do.
Washington:		
Seattle	Mar. 14, 1979	Do.
Spokane	Jan 15, 1980	Agribusiness Conference.
West Virginia: Charleston	May 23, 1978	Small Business Conference.
Wisconsin:		
Milwaukee	Apr. 18, 1980	Do.
Do	Oct. 17, 1978	Do.

COSPONSORS, OPIC COORDINATED CONFERENCES

LONG BEACH, CALIF., MARCH 27, 1979

Azusa Pacific College
Black Businessmen's Association
Brazil-California Trade Association
California Council for International Trade
College of Business Administration, Loyola Marymount University
Export Managers Association of California
Foreign Credit Insurance Association
Foreign Trade Association of Southern California
Inland Valleys International Trade Association
International Business Association, Long Beach Area Chamber of Commerce
International Business Center, California State University (Long Beach)
International Business Education and Research Program, University of Southern California
International Business Programs, California State University (Los Angeles)
International Marketing Association of Orange County
International Marketing Program, California State University (Fullerton)

International Trade Association of South Bay
International Trade Club of Los Angeles
Long Beach Economic Development Commission
Los Angeles Chamber of Commerce
Mayor's Office of Small Business Assistance (Los Angeles)
Office of International Trade, State of California
Port of Long Beach
Port of Los Angeles
School of Business and Management, Chapman College
Service Corps of Retired Executives
Small Business Development Center, California State Polytechnic University
World Trade Association of San Diego
UCLA-Pacific Basin Economic Study Center

LOS ANGELES, CALIF., NOVEMBER 29, 1979

Agricultural Council of California
American Consulting Engineers
American Management Association
Associated General Contractors
Bank of America
California Council for International Trade
California Department of Food and Agriculture
California Farm Bureau Federation
Crocker National Bank
Foreign Trade Association of Southern California
International Business Association of Long Beach Chamber of Commerce
International Business Center (California State University in Long Beach)
International Marketing Association of Orange County
International Trade Club of Los Angeles
Los Angeles Area Chamber of Commerce
National Association of Women Business Owners
Office of International Trade, State of California
Port of Long Beach
Port of Los Angeles
San Francisco Chamber of Commerce
San Jose Chamber of Commerce
Santa Clara Valley World Trade Association
Security Pacific Bank
The Bank of California
Union Bank
United California Bank
U.S. Department of Commerce
Wells Fargo Bank
World Trade Association of San Diego

PALO ALTO, CALIF., MARCH 28, 1979

California Council for International Trade
Export Managers Association of California
Foreign Credit Insurance Association
Fresno County and City Chamber of Commerce
Greater Stockton Chamber of Commerce
International Managers Association
International Trade Council
National Economic Development Association
Oakland World Trade Association
Office of International Trade, State of California
Sacramento Metropolitan Chamber of Commerce
San Francisco District Export Council
San Francisco World Trade Association
San Jose Chamber of Commerce
Santa Clara Valley World Trade Club
Service Corps of Retired Executives
World Trade Council (Affiliate of San Mateo County Development Association)

SAN FRANCISCO, CALIF., APRIL 19, 1979

Agricultural Council of California
California Council for International Trade
California Department of Food and Agriculture
California Farm Bureau Federation
Division of Agricultural Science, University of California
Fresno County and City Chamber of Commerce
Golden Gate University
Greater San Francisco Chamber of Commerce
Oakland Chamber of Commerce
Office of International Trade, State of California
Oregon State Department of Agriculture
Sacramento Metropolitan Chamber of Commerce
San Jose Chamber of Commerce
Santa Clara World Trade Club
U.S. Small Business Administration
Washington State Department of Agriculture

NEW HAVEN, CONN., SEPTEMBER 28, 1979

American Marketing Association—Connecticut Chapter
Business Resource Center of Connecticut, Inc.
Citytrust
Colonial Bank
Connecticut Bank and Trust
Connecticut Business and Industry Association
Connecticut Department of Commerce
Connecticut District Export Council
Connecticut Engineers in Private Practice
Connecticut Foreign Trade Association
Connecticut International Trade Association
Connecticut National Bank
Connecticut Small Business Federation
First Bank
Foreign Credit Insurance Association
Greater New Haven Chamber of Commerce
Hartford County Manufacturers Association
Hartford National Bank and Trust Co.
Local Business Development Organization of University of New Haven
Manufacturers Association of Southern Connecticut, Inc.
National Association of Credit Management—Connecticut, Inc.
National Association of Minority Contractors
National Association of Women Business Owners
National Economic Development Association
Robert Morris Associates
Stamford Forum for World Affairs
State National Bank of Connecticut
The Connecticut Bank and Trust Co.
The Local Business Development Organization of the University of New Haven
Union Trust Company
Westconn International Trade Association
Western Connecticut Industrial Council, Inc.
World Affairs Center, Inc.

DISTRICT OF COLUMBIA, JUNE 26, 1980

Advisory Committee on Overseas Cooperative Development
AMA/International
American Association of MESBICs
American Bankers Association
American Consulting Engineers
American Foreign Policy Institute
American Security Bank
American Society of Agricultural Consultants
American Society of Civil Engineers
American Society of International Law

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Association of Asian-American Chambers of Commerce
Association of American Chambers of Commerce in Latin America
Association on Third World Affairs, Inc.
Bankers Association for Foreign Trade
Chamber of Commerce of the United States
District of Columbia, Maryland and Virginia District Offices of the International Trade Administration, U.S. Department of Commerce
District of Columbia Chamber of Commerce
Independent Petroleum Association of America
International Law Institute
Latin American Manufacturers Association
Mayor's International Task Force
Middle East Institute
National Association of Black Manufacturers
National Association of Minority Contractors
National Association of Women Business Owners
National Business League
National Economic Development Association
National Small Business Association
Riggs National Bank
The Associated General Contractors of America
The Bar Association of the District of Columbia
U.S.-Asia Institute

JACKSONVILLE, FLA., MARCH 28, 1960

Clay County Chamber of Commerce
Edwards Waters College
Florida Bankers Association
Florida Department of Commerce
Florida Department of Agriculture and Consumer Services
Florida International Agricultural Trade Council
Florida Junior College
Gainesville Chamber of Commerce
Jacksonville Area Chamber of Commerce
Jacksonville International Trade Association
Jacksonville Port Authority
Jacksonville University
National Association of Manufacturers
National Association of Women Business Owners
National Small Business Association
Orlando Chamber of Commerce
U.S.-Asia Institute
University of Florida
University of North Florida

MIAMI, FLA., MARCH 27, 1980

American Consulting Engineers Council
American Society of Civil Engineers
Bank of Boston International of Miami
Bank of Miami
Bankers Trust International of Miami
Barnett Bank of Miami
Broward County Commission on the Status of Women
Central Bank and Trust
Chase Bank International of Miami
Citibank Interamerica
Citizens & Southern International Bank
Dade County Commission on the Status of Women
Dade County Office of Latin Affairs
Flagship National Bank of Miami
Florida Bankers Association
Florida Council of International Development
Florida Department of Agriculture and Consumer Affairs
Florida Department of Commerce
Florida International Agricultural Trade Council, Inc.

Florida National Bank
Ft. Lauderdale Area World Trade Council
Greater Miami Chamber of Commerce
International Center of Florida
Irving Trust Company International/Miami
Latin Chamber of Commerce
Morgan Guaranty International Bank of Miami
National Association of Credit Management of South Florida
National Association of Manufacturers
National Association of Women Business Owners
Northern Trust Interamerican Bank
Pan American Bank of Miami
Republic National Bank of Miami
Royal Trust Bank of Miami
Southeast First National Bank of Miami
The Associated General Contractors of America
U.S.-Asia Institute
U.S. Department of Commerce
Wells Fargo Interamerican Bank

MIAMI, FLA., MARCH 15, 1979

Bank of Boston International of Miami
Bankers Trust International of Miami
Barnett Bank of Miami
Broward County Commission on the Status of Women
Center for Continuing Education for Women—M.D.C.C.
Chase Bank International—Miami
Citibank Interamerica
Dade County Commission on the Status of Women
Dade County Office of Latin Affairs
Flagship National Bank of Miami
Florida Council of International Development
Florida Department of Agriculture and Consumer Services
Florida Department of Commerce
Florida District Export Council
Florida International Agricultural Trade Council, Inc.
Foreign Credit Insurance Association
Fort Lauderdale Area World Trade Council
Greater Miami Chamber of Commerce
Intercontinental Bank
International Center of Florida
Irving Interamerican Bank
Latin American Trade & Development Commission, State of Florida
Latin Chamber of Commerce
Morgan Guaranty International Bank of Miami
National Association of Credit Management
National Economic Development Association
Northern Trust Interamerican Bank
Pan American Bank of Miami
Royal Trust Bank of Miami
Service Corps of Retired Executives
Southeast First National Bank of Miami
The Bank of Miami
Totalbank
Wells Fargo Interamerican Bank

ORLANDO, FLA., SEPTEMBER 20, 1978

College of Business Administration, Florida Technical University
Florida Bankers Association
Florida Chamber of Commerce
Florida Council of International Development
Florida Department of Agriculture and Consumer Services
Florida Department of Commerce
Florida International Agricultural Trade Conference, Inc.
Maitland-South Seminole Chamber of Commerce

National Association of Women Business Owners
Orlando Chamber of Commerce
Roy E. Crummer School of Finance & Business Administration, Rollins College
Sanford Chamber of Commerce
State of Florida, Comptroller, Treasurer and Insurance Commissioner
Winter Park Chamber of Commerce

ATLANTA, GA., MAY 31, 1979

C & S Bank
First National Bank of Atlanta
Florida Department of Agriculture
Fulton National Bank
Georgia Agri Business Council
Georgia Department of Agriculture
Georgia International Trade Division, Georgia Department of Agriculture
Georgia World Congress Institute
National Committee on International Trade Documentation
National Forest Products Association
South Carolina Department of Agriculture
Southeastern Livestock Export Association
U.S. Department of Commerce, Atlanta District Office, Industry and Trade Administration
University of Georgia Agricultural Extension Services

CHICAGO, ILL., MAY 22, 1980

American Consulting Engineers Council
American National Bank and Trust Company of Chicago
American Society of Civil Engineers
Associated General Contractors
Chamber of Commerce of the United States
Chicago Association of Commerce.
Chicago Council on Foreign Relations
Chicago District Export Council
Chicago Economic Development Corporation
Consulting Engineers Council of Illinois
Continental Illinois National Bank and Trust Company of Chicago
Harris Trust and Savings Bank
Illinois Bankers Association
Illinois Department of Agriculture
Illinois Department of Commerce and Community Affairs
Illinois Farm Bureau
Illinois Manufacturers' Association
Illinois State Chamber of Commerce
Indiana Department of Commerce, International Trade Division
Institute of World Affairs of the University of Wisconsin-Milwaukee
Michiana World Trade Club
Minority Business Development Agency
National Association of Women Business Owners
National Small Business Association
Northeastern Wisconsin World Trade Association
Northwest International Trade Club
The First National Bank of Chicago
The Northern Trust Company
U.S.-Asia Institute
U.S. Department of Commerce, Illinois, Indiana and Wisconsin District Offices of the International Trade Administration
U.S. Small Business Administration
West Suburban International Trade Club
Wisconsin Association of Manufacturers and Commerce
Wisconsin Department of Business Development
Wisconsin District Export Council
World Trade Association of Milwaukee
World Trade Club of Indiana, Inc.
World Trade Club of Northern Illinois

NEW ORLEANS, LA., SEPTEMBER 18, 1980

American Society of Civil Engineers
Association of General Contractors
Board of Trade
Chamber of Commerce of New Orleans
Chamber of Commerce of the U.S.
International House
International Trade Mart
Economic Development Council
Louisiana Department of Commerce
Louisiana Shipbuilders
Mayor's Council on International Trade and Economic Development
Mississippi Marketing Council
National Association of Small Business Owners
National Association of Women Business Owners
World Trade Club

SPRINGFIELD, MASS., NOVEMBER 15, 1979

Black Corporation Presidents of New England
Central Berkshire Chamber of Commerce
Chicopee Chamber of Commerce
Connecticut Business and Industry Association
Connecticut Department of Economic Development
Connecticut International Trade Association
First National Bank of Boston
Foreign Credit Insurance Association
Franklin County Chamber of Commerce
Greater Springfield Chamber of Commerce
International Business Center of New England
Massachusetts Department of Commerce and Development
Massachusetts Foreign Business Council
Massachusetts Office of Minority Business Affairs
Massachusetts Port Authority
National Association of Manufacturers
National Business League
National Small Business Association
New England Council, Inc.
New England Merchants National Bank
New England Regional Commission
Old Colony Bank of Hampden County
Shawmut Bank of Boston
Shawmut First Bank and Trust Company/Springfield
Smaller Business Association of New England, Inc.
Smaller Companies Management Program Associates
State Street Bank and Trust Company
Vermont Agency of Development and Community Affairs
Vermont State Chamber of Commerce.
World Affairs Center, Inc.

WALTHAM, MASS., APRIL 25, 1979

Associated Industries of Massachusetts (AIM)
Black Corporation Presidents of New England (BCPNE)
International Business Center of New England
Massport
Smaller Business Association of New England, Inc. (SBANE)
Smaller Companies Management Program Associates (SCMP)

GRAND RAPIDS, MICH., MAY 10, 1979

Albion Economic Development Corporation
Battle Creek Chamber of Commerce
Battle Creek Unlimited
Economic Development Department of the City of Grand Rapids
Foreign Credit Insurance Association

Grand Rapids Area Chamber of Commerce
Grand Valley State Colleges, School of Business Administration
Greater Albion Chamber of Commerce
Kalamazoo County Chamber of Commerce
Kalamazoo County Economic Expansion Corporation
Michigan National Bank
Muskegon Chamber of Commerce
Muskegon County Economic Development Commission
Old Kent Bank and Trust Company
Twin Cities Chamber of Commerce
Union Bank and Trust
West Michigan World Trade Club

MINNEAPOLIS, MINN., SEPTEMBER 30, 1980

Bloomington Chamber of Commerce
Duluth Chamber of Commerce
First Bank Minneapolis
Foreign Credit Insurance Association
Greater Minneapolis Chamber of Commerce
Minnesota Association of Commerce and Industry
Minnesota District Export Council
Minnesota Department of Agriculture
Minnesota World Trade Association
National Association of Small Business Owners
National Association of Women Business Owners
North Suburban Chamber of Commerce
Northwestern National Bank of Minneapolis
North Central Credit and Financial Management Association

LINCOLN, NEBR., SEPTEMBER 8, 1978

Export-Import Bank of the United States
First National Bank, Lincoln
First National Bank, Omaha
Midwest International Trade Association
National Bank of Commerce, Lincoln
Nebraska Department of Economic Development
Nebraska Department of Agriculture
Nebraska Export Expansion Council
Omaha National Bank, Omaha
Overseas Private Investment Corporation
U.S. Department of Commerce
U.S. National Bank, Omaha
U.S. Small Business Administration

NEW YORK CITY, JUNE 10, 1980

Association of Minority Business Enterprise of New York, Inc. (AMENY)
American Association of MESBICs
Banco de Ponce
Banco Popular de Puerto Rico
Chamber of Commerce of the United States
Foreign Credit Insurance Association (FCIA)
Freedom National Bank of New York
Interracial Council for Business Opportunities
National Association of Black Manufacturers
National Association of Minority Contractors
National Association of Small Business Owners
National Economic Development Association
National Minority Business Council
New York Chamber of Commerce and Industry
New York City Minority Business Development Office
New York District Export Council
New York Minority Business Opportunity Committee (MBOC) of the Federal Executive Board

New York State Department of Commerce, Minority Business Development Bureau
One Hundred Black Men
Sino-American Chamber of Commerce (U.S.A.), Inc.
Taiwan Merchants Association
U.S.-Asia Institute

NEW YORK CITY, JUNE 12, 1980

African-American Chamber of Commerce
AMA/International
American-Arab Association for Commerce and Industry
American Consulting Engineers Council
American-Israel Chamber of Commerce
American Society of Civil Engineers
The Associated General Contractors of America
Chamber of Commerce of Latin America
Chamber of Commerce of the United States
The Committee on International Law of the Association of the Bar of the City of New York
Council of the Americas
Far East-America Council of Commerce and Industry
Governor's Council for International Business
International Center in New York
International Cooperative Petroleum Association
Mining and Metallurgical Society of America
National Association of Export Management Companies
National Association of Manufacturers
National Association of Small Business Owners
National Association of Women Business Owners
National Foreign Trade Council Foundation
New York Bankers Association
New York Bar Association
New York Chamber of Commerce and Industry
New York City Office of Economic Development
New York State Department of Commerce
Port Authority of New York and New Jersey
Sino-American Chamber of Commerce (U.S.A.), Inc.
U.S.-Asia Institute
U.S. Council of the International Chamber of Commerce
World Trade Club of New York

WOODBURY, N.Y., JUNE 21, 1979

Advancement of Commerce and Industry, Inc.
Foreign Credit Insurance Association
Huntington Township Chamber of Commerce
Long Island Association of Commerce and Industry
Long Island Bankers' Association
Long Island Forum for Technology, Inc.
Nassau County Department of Commerce and Industry
New York State Department of Commerce
Suffolk County Department of Economic Development

ERIE, PA., SEPTEMBER 9, 1978

Behrend College
Corry Chamber of Commerce
Edinboro College
Erie Area Chamber of Commerce
Erie Employment Task Force
First National Bank of Pennsylvania
Foreign Credit Insurance Association
Franklin Area Chamber of Commerce
Gannon College
Greenville Area Chamber of Commerce
Grove City Area Chamber of Commerce
League of Women Voters of Erie County
Manufacturer's Association

Marine Bank
Meadville Area Chamber of Commerce
Mercer Area Chamber of Commerce
Mercyhurst College
National Association of Accountants-Erie Chapter
National Association of Minority Contractors
Oil City Area Chamber of Commerce
Pennsylvania Society of Public Accountants
Port Authority
Robert Morris Associates
Security Peoples Trust Company
Sharon Chamber of Commerce
Titusville Area Chamber of Commerce
Union Bank Trust Company
Villa Maria College
Warren County Chamber of Commerce

PHILADELPHIA PA., JUNE 18, 1978

Central Penn National Bank
The Chester Group
Consulting Engineers Council
Council for Revitalization of Employment and Industry
Delaware Chamber of Commerce
The Fidelity Bank
First Pennsylvania Bank
Foreign Policy Research Institute
Girard Trust Bank
Greater Philadelphia Partnership
International Business Forum
Multinational Enterprise Unit (Wharton)
National Association of Women Business Owners
OIC-Progress Council
Old Philadelphia Development Corporation
Philadelphia Chamber of Commerce
Philadelphia District Export Council
Philadelphia Industrial Development Corporation
The Philadelphia National Bank
Provident National Bank
Small Business Council
University City Science Center
World Affairs Council of Philadelphia
World Trade Association

PITTSBURGH, PA., NOVEMBER 8, 1978

Allegheny Conference on Community Development
Allegheny County Commissioners
Allegheny County-Department of Planning & Development
American Marketing Association-Pittsburgh Chapter
Carlow College
Carnegie Library of Pittsburgh
Carnegie-Mellon University
City of Pittsburgh—Department of Development
Credit Association of Western Pennsylvania
Duquesne University—School of Business Administration
Foreign Credit Insurance Association
Greater New Castle Association
Greater Pittsburgh Business Development Corporation
Huntingdon Business & Industry
International Business Forum
Manufacturers Association of Beaver County
Minority Business Office
National Association of Minority Contractors
National Association of Women Business Owners
Penn Southwest Association
Pennsylvania Bureau of International Commerce

Pennsylvania Council for International Education
Pennsylvania State University—College of Business Administration
PICPA
Pittsburgh District Export Council
Regional Industrial Development Corporation
Service Corps of Retired Executives
Smaller Manufacturers Council
Somerset county development council
University of Pittsburgh—Graduate School of Business
World Affairs Council of Pittsburgh
Greater Pittsburgh Chamber of Commerce and Area Chambers of Commerce: Airport, Aliquippa, Allegheny Valley, Altoona, Beaver Valley, Butler, Central Westmoreland, Chambersburg, Charleroi, Connellsville, Dubois, Ellwood City, Indiana, Johnstown, Mon-Yough, New Kensington, Punxsutawney, Uniontown, and Washington

HOUSTON, TEX., NOVEMBER 27, 1979

Allied Bank of Texas
American Consulting Engineers
American Management Association
Associated General Contractors
Bank of America International of Texas
Bank of the Southwest
Capital National Bank
Citibank International—Houston
First Chicago International Southwest
First City National Bank
First International Bank
The Greater San Antonio Chamber of Commerce
Houston Chamber of Commerce
Houston District Export Council
Houston National Bank
Houston World Trade Association
International Trade Association of Dallas
International Development Division of Texas Industrial Commission
Insttiute of International Education
Morgan Guaranty International Bank of Houston
National Assoication of Women Business Owners
Oklahoma Bankers Association
Oklahoma Department of Industrial Development
Port of Houston Authority
Security Pacific Southwest
Southwestern Foundation for International Business
Texas Commerce Bank
Texas Department of Agriculture
U.S. Department of Commerce

SPOKANE, WASH., JANUARY 15, 1980

American Plywood Association
Custom House Brokers and International Freight Forwarders Association of Washington State
Economic Development Council of Puget Sound
Idaho Office of International Trade
Idaho State Division of Tourism and Industrial Development
Inland Empire World Trade Club
Montana Department of Agriculture
Montana International Trade Commission
National Association of Women Business Owners
National Council of Farmer Cooperatives
National Forest Products Association
Oregon Bankers Association
Oregon Department of Agriculture
Oregon Department of Economic Development
Pacific Northwest Grain Dealers
Pacific Northwest Regional Commission

Port of Seattle
Port of Tacoma
Seattle Chamber of Commerce
Spokane Area Chamber of Commerce
Tacoma Area Chamber of Commerce
U.S. Department of Commerce
Washington Bankers Association
Washington Public Ports Association
Washington State Department of Agriculture
Washington State Department of Commerce and Economic Development
Washington State International Trade Fair
Western Wood Products Association
World Trade Club of Seattle
World Affairs Council of Oregon
World Affairs Council of Seattle
Western Wheat Association, U.S.A.

MILWAUKEE, WIS., APRIL 18, 1980

Center for Latin America, University of Wisconsin-Milwaukee
First Bank-Midland Milwaukee
First Wisconsin National Bank of Milwaukee
Foreign Credit Insurance Association
Foreign Trade Zone of Greater Milwaukee, Inc.
Great Lakes Users and Maritime Council
Hertiage Bank of Milwaukee
Independent Business Association of Wisconsin, Inc.
Institute of World Affairs University of Wisconsin-Milwaukee
M&I Marshall & Ilsley Bank
Madison International Trade Association
Marine National Exchange Bank
Milwaukee Area Technical College
Milwaukee School of Engineering
Northeastern Wisconsin World Trade Association
Port of Milwaukee
Southeastern Wisconsin World Trade Association
University of Wisconsin in Small Business Development Center
Wisconsin Association of Manufacturers and Commerce
Wisconsin Department of Business Development
Wisconsin District Export Council
World Trade Association of Milwaukee, Inc.

MILWAUKEE, WIS., OCTOBER 17, 1978

Board of Harbor Commissioners
First Bank-Midland Milwaukee
First Wisconsin National Bank
Foreign Credit Insurance Association
Heritage Bank of Milwaukee
Great Lakes Seaway Users
Independent Business Association of Wisconsin
Institute of World Affairs of the University of Wisconsin-Milwaukee
M&I Bank
Marine National Exchange Bank
Milwaukee Maritime Council
National Association of Minority Contractors
National Association of Women Business Owners
National Economic Development Association
Northeastern Wisconsin World Trade Association
Robert Morris Associates
Wisconsin Association of Manufacturers and Commerce
Wisconsin Department of Business Development
Wisconsin District Export Council
World Trade Association of Milwaukee

Senator SARBANES. Gentlemen, thank you very much for your testimony and for your full submissions.

I might note that Chairman Church and other members of the committee may wish to submit written questions to the witnesses for response to the record. I would simply alert you to that fact.

At this point I will defer to Senator Javits for his questions. I believe there are other engagements which may call him away this morning.

Senator Javits.

Senator Javits. Thank you, Mr. Chairman.

To protect the right of the Chair and other members, I ask unanimous consent that the hearing record be kept open for one week after this oral hearing that is before us and that the members may interpose questions and answers which should be forthcoming from the agency.

Senator Sarbanes. Thank you.

I think probably we should keep the record open longer than that, shouldn't we?

Senator Javits. Well, the difficulty is that the session is moving on. Ten days is all right with me.

Senator Sarbanes. What about keeping it open until the end of the month?

Senator Javits. All right, June 30 is good.

Also, Mr. Chairman, I ask unanimous consent that once the record is closed the hearings be printed as promptly as is practicable.

Senator Sarbanes. Fine.

Senator Javits. Thank you.

Mr. Ehrlich, I note a very interesting thing, which is that the administration was going to be transmitting new authorizing legislation for OPIC and your prediction was "early next year."

What is the status of that bill and when can we expect it?

Mr. Ehrlich. The basis for the administration's efforts were substantially promoted as I said, by your initiative with that of Senator Ribicoff, by the interagency task force that we put together. I am hoping that on the basis of that effort sometime reasonably early next year, if not sooner, we can come in with an administration position. The concern was that since it was probably not going to be considered until next year, there was no pressure to come in with a single view on the substance of the key issues.

Senator Javits. There is a letter to which I will refer, which should go into this record. It is dated October 29, 1979, and spoke of early this year; that is, early 1980.

The letter reads: "The administration will be transmitting new authorizing legislation for OPIC early next year."

It would have been very helpful naturally if we had had the administration bill before us.

Can you give us any indication of when this is likely to be submitted?

[The letter referred to follows:]

Executive Office of the President,
Office of Management and Budget,
Washington, D.C., October 29, 1979.

Hon. Jacob K. Javits,
U.S. Senate,
Washington, D.C.

Dear Senator Javits: As you know, Reorganization Plan No. 2 of 1979 made the Director of the International Development Cooperation Agency the Chair of the Board of Directors of the Overseas Private Investment Corporation.

rganization Plan No. 3 of 1979, now before the Congress, provides that the
Trade Representative shall be Vice Chair of the OPIC Board.
n the course of Congressional consideration of the foreign assistance and
le reorganization proposals, concerns have been expressed about the status
mission of OPIC. I recognize the significant impact of U.S. foreign direct
estment on the generation of U.S. exports, and the relationship of the OPIC
gram to the Government's efforts to increase the volume and value of U.S.
orts.
he Administration will be transmitting new authorizing legislation for OPIC
y next year. I assure you that in preparing that legislation, we will give
eful consideration to the relationship between the OPIC program and the
ernment's efforts to increase the volume and value of U.S. exports, as
l as to the development concerns expressed in the OPIC legislation enacted
year.
appreciate your continuing cooperation in the trade and other reorganiza-
efforts.

Sincerely,

James T. McIntyre, Jr.,
Director.

Ir. **Ehrlich.** With that prodding, we will push as hard as we can
l as rapidly as we can to come together with an administration
ition. I think we have the basic groundwork done in terms of the
eragency task force. I cannot give you a more accurate judgment.
eed in the workings of the bureaucracy will depend in part on the
e of congressional action. Until we can say it is fairly clear that the
ion is going to come up at a certain point there will be less pressure.
will push, personally, as hard as I can to get the administration
ition because I know how important it is. In the meantime, I think,
position we now have—which is not to object to major points, such
the trade purpose, removing the $1,000 restriction, although with
understanding that a firm position in terms of support or nonsup-
t has not yet been taken—helps us and helps the OPIC Board as
move ahead.

Senator **Javits.** I agree that in the absence of an administration
ition it is helpful that you do not oppose this legislation.

I am looking at this whole matter, as I have from the very begin-
g, to see what helps our country, and what will give us the best
m of organization for this purpose. I really have a genuine desire
see the administration's own ideas in an affirmative way.

Ir. **Ehrlich.** I appreciate that and appreciate the push you have
en to this. We will push as hard as we can. We will try to work
h the committee and its staff to get a clear sense of when you think
bill itself will come up and against that calendar will move as
idly as possible.

Senator **Javits.** I would like to put this on the record. It will be
atly appreciated if the administration would give us an update
the letter which I just had inserted into the record.

ask unanimous consent, Mr. Chairman.

Senator **Sarbanes.** Without objection, it is so ordered.

Mr. Ehrlich, I am not clear about your answer. When did the
ninistration plan to make its submission?

Mr. **Ehrlich.** There is no fixed calendar, in major part because we
derstood that it probably would not be until next year when the
ual bill came up for final consideration in the Congress. Until that
endar is fixed, there is no significant pressure to get that adminis-
tion position. Given Senator Javits' strong urging that we come

back with an administration position, we will press as hard as we can to get that.

Frankly, I had hoped that before this hearing we would have had an administration position. We have worked as hard as we could to get an agreed position. That, as well as to help the OPIC Board was the reason for the interagency task force.

We were not successful in getting the position, in part because many suggested it would be sometime before the Congress finally considered it.

But I will press as hard as I can to bring it to you as fast as possible.

Senator JAVITS. Mr. Chairman, may I say that I urge this because I believe that it is in the country's interest.

We have an election coming up soon and the results are uncertain. If the administration, for example, should be changed, I think it would be extremely valuable to have those officials who have had experience in this matter for 4 years present their views. We might lose that opportunity. After the election they could appear and testify, of course, but it would not be nearly as official as this appearance.

Similarly, even if this administration were to continue, it could be extremely helpful, in connection with a consideration of its ability to carry on, if we could get their views in this important matter to the business community as soon as possible.

I have no reason for pressing you, gentlemen, except that it seems best in the interest of the Nation.

Mr. EHRLICH. I understand, Senator.

Senator JAVITS. The United States has a foreign aid policy. It is now heavily multilateral, with which I thoroughly agree. Like Senator Sarbanes, I have been one of its most ardent supporters. We gradually have reduced the bilateral end of it.

Those are the two strains of policy, but there is a third strain of policy, and this is U.S. private investment. We evaluate in terms of its benefit or lack of benefit to the reason why we give bilateral and multilateral aid.

Would you be able, either now or by framing it carefully for the record, to answer this question exactly correctly? How does the administration look at the essentiality of the role of U.S. private investment, U.S. private business operations, in aid of the development effort?

If you are able to answer that now, that is fine. If not, it should be submitted. It seems to me that this is an essential threshold question.

Mr. EHRLICH. Let me state a summary response here. I would spell out the basis for it more fully later in a written submission.

The administration is absolutely committed to the close integration of the private sector and the public sector effort in economic relations with Third World countries. IDCA was created in part because of the President's and the administration's commitment to insuring a stronger role for the private sector in working in ways that promote U.S. interests and at the same time promote development. Within our bilateral effort, an important part is a reimbursable development program, which we are seeking now to strengthen even more, which gives an important place to the private sector in our development efforts. At the same time, in working with the World Bank, the regional banks, and the U.N. efforts, we are trying as well to do this. Trade

d investment, as well as concessional assistance, have to go to-
ther. It is increasingly clear that the nonconcessional part will be-
me more and more important, despite the degree to which the con-
essional aid is also needed.

There is a firm commitment to press on all of those fronts. It is a
mmitment that I would be delighted to spell out in more detail in
vritten submission to you.

Senator JAVITS. I thank you very much. That is very helpful.

[The information referred to follows:]

The Administration is convinced that U.S. private investment forms an essen-
l part of our international development program, and that its role needs to
more fully recognized and developed. Concessional aid cannot alone bring
out development. Often, concessional aid acts as a catalyst for and shaper of
velopment which must be carried out through private investment. Private
vestment is necessary to generate the types of things necessary for a self-
staining economy—the products and the capital, the managerial and produc-
n skills, the economic diversity and the consumer demand.

As stated in the written testimony, the projects with which OPIC is involved
lp to spread developmental effects throughout an economy. For example
PIC's projects develop mineral and forest resources that diversify a nation's
onomy, generate employment, and pay taxes and royalties that governments
n use for social investments; produce fertilizers and teach small farmers how
use them to increase their yields; process and export crops produced by small
rmers, assuring them better prices and higher production than previously;
gage in development banking activities, extending loans to help indigenous
sinesses and entrepreneurs expand; and increase the supply of building mate-
ls and basic consumer items.

As of 1978, American firms had invested over $40 billion in developing coun-
es. This represents only a fraction of the investment opportunities available
nich can be of benefit both to American companies and to the developing na-
ons. Linking development programs and private investment through programs
ch as OPIC offers a unique means of promoting those investments and direct-
g them into the most developmentally useful projects.

A number of specific actions by the Administration indicates the importance
tached to the relationship between private investment and development. For
ample, IDCA was established to deal not only with foreign assistance, but
advise the President on economic relations with the Third World. U.S. trade
d investment policies and their impact on development is one of IDCA's major
ncerns. Similarly, the Administration bases its determination that the cur-
nt relationship between IDCA and OPIC should be retained and that OPIC's
imary focus should remain developmental on the view that private investment
d development are mutually reinforcing.

Because of the relationship between trade, investment, and development,
CA recently established the Trade and Development Program as an autono-
ous unit within IDCA. This program had previously been administered through
D as the Reimbursable Development Program. It provides support for, among
her things, pre-investment surveys and feasibility studies in developing coun-
ies that may lead to contracts with American firms. The program is particu-
rly relevant to the rapidly growing U.S. economic relations with the so-called
nidde-income" developing countries of Latin America, Asia and Africa. In the
st five years it promoted approximately $2 billion in U.S. public and private
ports. Between 1980–1985 additional U.S. exports from already completed
ojects are expected to exceed $1 billion. We are confident that with greater
sibility and higher funding levels, the new TDP will be able to do an even
tter job in leading to trade and investments which are mutually beneficial to
veloping countries and U.S. economic interests, and that it will be able to
ork closely with OPIC in many of its endeavors.

Senator JAVITS. Mr. Chairman, may I be reminded when I have
ed 10 minutes of the committee's time.

In view of the fact that Senator Ribicoff's and my bill raises the
sue maintaining OPIC in or separating it from IDCA, could you
ll us just what IDCA has done with respect to OPIC which is in

the interest of the country. I am not asking you about benefiting OPIC or not benefiting it. In other words, how has OPIC's relationship to IDCA worked in aid of the national policy respecting foreign aid?

Mr. Erhlich. In two ways I think it is important to our national interests that OPIC and IDCA maintain their relationship.

In terms of the kind of work that OPIC does to promote investments in developing countries, that relationship I think can provide a stronger, more coherent developmental focus, which is very much in the interest of the United States.

IDCA's mandate is development, to insure that there is a single focal point for development interest. Being certain that OPIC's efforts are consistent with that mandate and that it is a strong instrument for development policy, therefore, is one part of the reason that it is wholly within U.S. interests and it furthers those interests.

On the other hand, it is important that our development activities take into account what is going on in the private sector and take full advantage of the ways in which the private sector can be useful. We do this by having the link between OPIC and IDCA.

The other activities that are part of our total development portfolio can themselves be strengthened and thus further U.S. interests. I can give you particular kinds of examples, but the results are to strengthen both parts of that effort and, as a result, further U.S. interests.

Senator Javits. Mr. Ehrlich, on this matter I wish you would give us the specifics in a written document.

Mr. Erlich. I would be delighted to give you specific examples.

Senator Javits. I may very well change the view which I have in the bill. If I do wish to change, I would like to have a body of fact upon which to base my decision.

Mr. Ehrlich. I do stress that it is not only the administration's view but is the position of the OPIC Board that this relationship ought to stay and, indeed, if it did not further basic U.S. interests, I myself would be in favor of a separation, but I think it does.

[The information referred to follows:]

The question asks what IDCA has done with respect to OPIC which is in the interest of national policy respecting foreign aid.

IDCA's relationship to OPIC has strengthened our national policies on development assistance by providing a means for improved coordination of our support for private investment in developing countries with our development activities. We are firmly committed to maximizing the role of U.S. private investment in the development process of Third World nations. Private investment is an essential complement to concessional development assistance in the effort to build self-sustaining economies. It is also very much in the U.S. economic interest since developing countries represent the fastest growing market for U.S. goods and services.

Through IDCA's role of providing a development voice in government decisionmaking on trade and other policy matters, we are able to work toward assuring that a wide range of government policies are consistent with the related investment and development purposes of OPIC. Because private investment performs such a key role in the development process, we are convinced that our work on behalf of OPIC's purposes benefits not only OPIC itself, but also our international development objectives. We will be able to enhance the combined development/investment value of OPIC by the coordinated use of OPIC and other programs within IDCA, such as the new Trade and Development Program (formerly the Reimbursable Development Program).

At the same time, IDCA's relationship to OPIC helps insure that OPIC's investment projects are consistent with our overall development objectives. Through my statutory capacity as Chairman of the Board of OPIC, I work closely with the Board and management of OPIC to make sure we make the maximum use of OPIC's potential contribution to development, through U.S. investment in and trade with developing countries.

Senator Javits. I am very much impressed with the OPIC Board and this relates to the next question I want to ask you.

Mr. Chairman, I ask unanimous consent that the resolution of the Board of OPIC on this matter regarding future operations, dated May 13, 1980, be made a part of the record.

Senator Sarbanes. It is so ordered.

Mr. Llewellyn, was that included as part of your presentation or in the supporting documents which you submitted?

Mr. Llewellyn. I believe it was in the major statement that we gave you.

Senator Javits. Thank you, Mr. Chairman. I will therefore withdraw my request.

Item 3 of that resolution says, "Addition of a trade purpose for the corporation."

As you presided over the Board, what was its reason for including the trade purpose? As you said, the administration still is deciding that question.

Mr. Ehrlich. The Board concluded, after carefully reviewing the issues, that the addition of a trade purpose could be an additional way to strengthen U.S. exports and U.S. economic interests in a way that is wholly consistent with the basic development mandate of the institution. I stress this latter point because it was discussed at great length by the Board.

There was a good deal of inquiry to be sure that the basic development mandate was maintained.

It was indeed the view of the Board that the development mandate itself and the development impact could be strengthened by this addition. Far from being inconsistent, they complemented and supplemented each other, so the majority of the Board concluded that by adding this purpose, overall U.S. interests would be strengthened because development interests would be strengthened as well as trade.

Senator Javits. Thank you very much.

Mr. Chairman, I am prepared now to question Mr. Llewellyn but would yield to the Chair at this point.

Senator Sarbanes. Why don't you proceed now since you may have a time problem. I will ask my questions later.

Senator Javits. Thank you.

Mr. Llewellyn, I noticed with great interest that you spoke glowingly about the financial condition of OPIC, but you did not tell us about its liabilities.

Could you tell us something about that? OPIC has a fine asset position and excellent earnings prospects, but what about its liabilities?

Mr. Llewellyn. Senator, in summary, our liabilities over the last 10 years have come to about $360 million in gas claim settlements. Our actual losses have been considerably lower as a result of our pursuit of salvage. Payments for claims have come from our own reserves, as you know. We never had to resort to using our $100 million line of credit with the Treasury. We never have had to resort to going to the Congress to get additional moneys to pay our claims.

Right now I would say our potential liabilities really lie in the area of Iran. That potential maximum liability would be about $56 or $57 million. We have a minimal amount of coverage in Nicaragua and El Salvador, so we are not looking at anything major in those countries.

We have no other particular problems in sight. As I cited in our testimony, we believe that we have rather ample reserves to cover contingent liabilities at this point in time.

Senator JAVITS. Is part of your submitted statement a statement of the assets and liabilities of OPIC?

Mr. LLEWELLYN. Yes, sir.

Senator JAVITS. Including the contingent part of it?

Mr. LLEWELLYN. Yes, sir.

Senator JAVITS. I understand that recently OPIC has transferred $15 million from retained earnings to contingency reserves. Is that correct?

Mr. LLEWELLYN. Yes, sir.

Senator JAVITS. That is an evidence of its financial help?

Mr. LLEWELLYN. Sir, we think that our Board and our technical people are acting in a prudent manner in trying to build reserves at all times. We moved money into our invoice and guaranty reserves and are continually trying to build them up.

Senator JAVITS. Good.

You spoke also of the potential use of OPIC for increasing energy exploration, especially in the non-OPIC developing countries.

It is a fact, and it is one of the reasons why I am such an ardent supporter of the World Bank, that the general opinion of the experts is that about half the oil that remains to be discovered in the world will be discovered in the developing countries. These countries are the least developed of the potential areas with respect to oil exploration.

Can you give us an idea as to where OPIC fits in the discovery that I have just described, in view of the program being carried on privately by the World Bank and by other agencies. Can you give us some of the business judgments as to why this is a proper program for OPIC.

Mr. LLEWELLYN. Basically, the underlying consideration, as you pointed out, is the fact that we are looking for alternative sources of energy in countries that heretofore have not been net exporters of oil. The OPIC program can be effective from the initial exploration stage. We are not financing seismographic studies and similar types of operations. We are insuring doing both exploration and the production stages. We are operating, for the most part, with a lot of different entities which ordinarily would not really be involved in areas of less than great promise. The major oil companies, for the most part, do not have as great a desire for our services as the smaller companies since they feel that they have the ability to be self-insuring, but a lot of the medium-sized and smaller-sized companies feel they have to have this necessary protection in order to go into a host country and expend the kinds of money that are necessary in oil production.

I think one of the things you also point out in your bill was the proposed raising of our issuing authority because of the fact that we are now going forward with some rather large projects in terms of money in our energy program. Frankly, even our coverages really are minimal by comparison to the overall exposure of the projects. We are talking about $75 million at this point in time as a maximum, to going maybe to $100 million. We really are talking about projects that run in the neighborhood of $200 to $300 million at this point in time.

Frankly, also, because of the declining availability of potential oil-bearing properties, instead of being able to drill on dry land, our insureds are drilling more and more in areas which are more inaccessible and more expensive to tap. Therefore we are talking about offshore drilling, we are talking about a lot more expensive types of operations to get back the same kind of return our insureds used to get back on dry land.

This is the reason that I think justifies the fact that OPIC has its energy program.

Furthermore, I think the justification surely is pointed out by the fact of the ever-increasing amount of insurance that we now are issuing under this program plus the increasing interest of oil companies in our program, as I pointed out in my statement. We have about 32 projects now in-house which are being evaluated and looked at which are registered for insurance.

Senator JAVITS. The $1,000 per capita country limitation which has been placed on OPIC has been suspended, has it not, respecting Taiwan, by the Taiwan Relations Act?

Mr. LLEWELLYN. Yes, sir.

Senator JAVITS. This is one example. What has been the effect upon OPIC's operations of that cap?

Mr. LLEWELLYN. Senator, let me go back and give you the story.

From the inception in 1971 to the reauthorization legislation of 1978, we never really had this cap at all. OPIC's people in manpower, reserves, and resources were able to service all of our country's needs and those of the LDC's without any kind of limitation. Since we have had this limitation, now approximately for 2 years, we have made a study of the impact upon our business. We find that we have lost about a third of our potential business, based on the fact that we have this limitation.

You hear at times from some people that if we again operated without the $1,000 per capita country restriction we would not be able to handle all the business or we would impair our ability to give preferential treatment to the $520 per capita income countries. That is not a fact. We would be able to more than handle anything that comes through the door. We would be more than happy to handle it. There would be in no way any impairment of considerations for those countries we presently service, the so-called $1,000 less than per capita income countries.

Senator JAVITS. Do you contend that eliminating the $1,000 per capita limitation, thereby enabling you to work in countries which are moving from developing to developed, albeit slowly, will help the poorest countries? If so, how will it do this?

Mr. LLEWELLYN. To be quite candid, I don't think it will help or not help them one way or the other. I think we must look at what we are doing and how we are doing it. I have a great difficulty, frankly, dealing with people who ask me questions that do not really seem to be relevant to the facts.

The facts are that American businessmen making investments in less developed countries are looking at projects for their economic viability and for the bottom line. Notwithstanding the fact that OPIC is or is not offering insurance, we are not offering any kind of financial incentives, tax abatements, waivers on income tax, or anything else that will make a financial decision by an American company change because OPIC or anyone else wants to have developmental or trade effects or anything else. These people will make a decision which reflects upon their bottom line. I think everyone should understand this.

Far too often I find that people seem to feel that OPIC is in the driver's seat and that OPIC can tell a private investor where to go, how to do it, and what to do. Well, we cannot do that. I am sure if you talk to any businessman, he will tell you that he is not going to make his investment based upon our good sentiments or wishful good works. He is going to look at it in terms of its economic viability and the need and necessity in the country.

Senator **Javits**. It is your intention, is it not, that the preferential aspect of the law respecting the poorest countries shall remain?

Mr. **Llewellyn**. Yes, sir.

Senator **Javits**. Is there any shortfall in your activities respecting the poorest countries?

Mr. **Llewellyn**. No, sir, not at all. At this point in time, I think we have been able to cover that need. I think we have demonstrated it in terms of the volume of business, the types of investments, and where the investments were. Over 84 percent of them were in the so-called less than $1,000 per capita income or less countries this last year. We have run investment missions into the poorest of the poor countries to try to stimulate investments. I think we have more than covered our commitment to do this. I don't think there is any reason why we cannot go forward with that commitment.

Senator **Javits**. Mr. Ehrlich, did you have a comment?

Mr. **Ehrlich**. I might add that broadening OPIC's business operations in higher income countries could increase the resources available for direct lending and loan guarantees to the poorest countries by generating greater premium income. In other words, from the higher income countries we could expand the resources available for the poorer countries. I think that would be of direct benefit to the poorer countries.

I also think it would allow a diversification of the portfolio and expansion, particularly in the areas of high risk in the energy-related fields, which are very often, as you have said, in the poorest countries which is where many undeveloped resources are. This, too, could be a significant and added advantage to the poorest countries.

Senator **Javits**. On the trade side, it is a fact, is it not, Mr. Llewellyn, that the United States does 40 percent of its exports to developing countries?

Mr. **Llewellyn**. Yes, sir.

Senator **Javits**. Is that a marked change within recent years?

Mr. **Llewellyn**. It is a marked change, Senator. In the last 10 years, U.S. exports have gone from $10 billion to $60 billion last year to the developing countries.

Senator **Javits**. Yes.

OPIC is always under the charge that it is an agency essentially for U.S. big business.

I am a member of the President's Export Council, headed by Reg Jones of General Electric, and we are deeply concerned with bringing small- and medium-sized business into the export field. We estimate that there are 20,000 firms that should be exporting from this country.

Can you tell us how OPIC's operations and exports relate to bringing more of the small and medium types of business into the expert area?

Mr. **Llewellyn**. Senator, let me go off the reservation a little bit. I continually hear the same criticism about how we are only for the big fellow. I would like to say something first about the fact that I personally am for American business being able to do business. I am not in the position of restructuring what is. I think everybody should understand some things before we go further in where we want to go.

Approximately 100 American companies do 50 percent of all the business overseas on the part of the United States of America. Approximately 250 American companies do 75 percent of all the business done overseas on the part of the United States of America. That is a fact and I cannot do anything about it.

The second fact is, what we are talking about—and Mr. Ehrlich and I have said this many times—is development. We are talking about transferral of technology. We are talking about helping Third World countries. If I am going to get so holier than thou as to worry about the size of the helper, then I think I could stay prostrate forever and a day. Therefore, this is another problem that ought to be put to rest.

As regard to 20,000 to 25,000 additional companies that can do exporting, yes, there is a definite market out there for those companies, but for years these companies historically have looked at the idea that the American marketplace was the best place to do business, so why get involved in all the problems, troubles, redtape, and other matters involved in international trade.

OPIC has been running its investment mission program to try to attract and entice American businesses which heretofore have not been involved in exporting and investing overseas to take a look at the opportunities available in the international marketplace.

Seeking to encourage small investors to look beyond our shores, OPIC, in conjunction with the SBA, the Commerce Department, and the Export-Import Bank, has been running investment conferences all over this country. We have participated in over 67 of them and we have arranged about 27 or 28 ourself. We have had speakers at every one of these to talk about the assistance that is available from the Eximbank, the Commerce Department, OPIC, and others to help get people to go out and export and invest. We have dealt with countries and ambassadors in terms of what projects they would like to have in their countries. They have given us lists of projects. We have tried to put them in contact with American companies who have the capability of carrying out these projects. Further, we have made money available out of our funds for feasibility studies, to see if projects are feasible.

Therefore, I think we have done tremendous amounts of work in terms of trying to bring about investments by smaller companies.

Look at our mandate. Over 30 percent of our business was done with smaller businesses in fiscal year 1979.

Senator **Javits**. The charge is frequently made that OPIC facilitates "runaway" plants.

Would you give us as much information as you can, either now or in writing, as to how you determine what investment projects may be an effort to bring about runaway plants and how you guard against this occurring.

Mr. **Llewellyn.** Senator, first let me say that I will give you a written statement as to how we handle the runaway plant situation.[1]

Mr. **Llewellyn.** When anyone comes in to us and makes an application for a project for which OPIC insurance or financing is being sought, our development department makes a thorough study as to what the impact of that investment will be upon the U.S. economic sector involved. If our development department does not possess the technical capability to do this, we will hire outside experts to give us the kind of information we need and give us the kinds of reports that are necessary.

We also work in conjunction with the Commerce Department to make sure that the industries we are talking about assisting will not be impacted upon adversely here in this country. We do anything else that is necessary to make sure that each and every project is not going to adversely affect in a significant manner, the industry that presently is here in the United States of America.

Senator **Javits.** Thank you.

I have just two last points, Mr. Llewellyn.

One, I understand that only as recently as yesterday you had a conference for minority business respecting foreign investment and trade.

Mr. **Llewellyn.** Yes, sir.

Senator **Javits.** Could you give us an exact record of the conference in writing so that we can get a picture of what occurred.

Mr. **Llewellyn.** Yes, sir.[1]

Mr. **Llewellyn.** Let me say, Senator, that this is the first time we have ever tried to conduct a minority investment conference. We held it in New York yesterday at the New York Hilton. We had over 120 people show up at the door to register for the program. We had 300 or more people there who are interested in doing business overseas, either export or direct investment.

I think this in itself is a great index of the kind of interest that is out there today in terms of doing business overseas.

We have had this kind of turnout all over the country, whether it was a minority or nonminority conference.

Senator **Javits.** Thank you very much.

Mr. Chairman, Frank Weil, who was the Assistant Secretary of Commerce for Industry and Trade, which is now an Under Secretary position, wished to appear and testify, but he is a lawyer and is practicing and his other duties made this difficult for him. He has written me a letter expressing his views, which are quite parallel to the views expressed here by Mr. Llewellyn and Mr. Ehrlich as to the key matters about which we have been talking.

I ask unanimous consent that his letter to me of June 4, 1980, may be made a part of the record.

Senator **Sarbanes.** Without objection, it is so ordered.

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[1] See page 218.

Senator JAVITS. Thank you very much, Mr. Chairman. That is deeply appreciated.

[The information referred to follows:]

GINSBURG, FELDMAN, WEIL & BRESS,
Washington, D.C., June 4, 1980.

Hon. JACOB K. JAVITS,
Ranking Minority Member, Committee on Foreign Relations, U.S. Senate, Washington, D.C.

DEAR JACK: Having served for almost two years as a government appointee on OPIC's Board of Directors and as Assistant Secretary of Commerce for Industry and Trade (now Under Secretary for International Trade), I hope you will accept my views as being neither altogether unbiased nor uninformed. Moreover, my 15 years as an investment banker/lawyer on Wall Street have given me an intimate view of how U.S. businessmen view investment opportunities outside of the United States.

This is offered in support of proposed legislation to extend the authority of the Overseas Private Investment Corporation through 1985 and to provide it with greater latitude to help further economic growth in the developing nations, thus make an increasing contribution to strengthening U.S. trade. In addition, our own economy would be enhanced by providing increased access to new markets which will create new domestic job opportunities.

I know that you and your colleagues have been deeply concerned with the steady decline in our trade picture which marked the 1970s. You recognize the need to develop globally oriented policies to meet the competitive challenges of our rapidly changing world. Without question, U.S. industry has the resources, talent and organizational ability to meet these challenges, if our government takes the necessary steps to reactivate our competitive instincts and ameliorates the disincentives which tend to weaken our competitiveness in the international marketplace. We must try to build a more effective partnership between our business community and government. That will restimulate our productivity growth, challenge us to explore foreign markets and cultures, and orient us to adapt our products to foreign market needs.

To restore our competitive edge demands that we assume a more aggressive role in maintaining our position in established markets. Moreover, we must cultivate those with the greatest potential for future growth—the developing nations. Their capacity to consume goods and services is directly related to their rate of development, and the record shows that those countries which have built strong private sector economies—largely by attracting foreign investment—have progressed far more rapidly than those which have emphasized government controlled programs. It is this kind of private sector development that has created opportunity in the host country and for prospective investors as well.

Our ability to increase our exports depends to a large extent on how effective a role our government plays in fostering development through the encouragement of more U.S. private sector investment in these some 100 countries which already constitute our fastest-growing markets, accounting for some $60 billion in U.S. exports annually.

The role of investment in generating exports has come into clearer focus during the past few years with the increased realization that one-third of U.S. exports are made to affiliates of subsidiaries of U.S. corporations. The more directly responsive OPIC's programs are to the needs of the business community, the more competitive we will be and the more rapidly we will be able to build a stronger trade position.

I know that a number of specific recommendations have been proposed to your Committee. I would like to call your attention primarily to three points that seem to me most important.

1. *Extension of authority.*—OPIC's operating authority should be extended at least through 1985 at the earliest possible date. Businessmen's decisions to invest abroad are not made on short notice. The business community needs reassurance that it can look to OPIC for support for several years ahead so they can draw plans on a long-term basis. Failure to indicate the government's intention to establish a reliable working partnership is likely to lead to the postponement or cancellation of project planning. That will impair the kind of growth needed by the developing nations and ourselves and would leave the door open to our competitors to establish priority positions in many markets.

2. *Elimination of $1,000 per capita limit.*—OPIC's 1978 legislation called for the Corporation to concentrate on the poorest, less-developed countries (those with a per capita GNP of $520 or less) and to restrict support for projects in the so-called "middle income" countries. This has caused widespread misunderstanding; the more successful nations feel they are being penalized for progress, yet they are a long way from qualifying as "developed." A more generalized test or cut-off which gives some discretion to OPIC's Board is almost essential in my opinion to an effective operating strategy.

From the standpoint of the U.S. business community the per capita limit in effect arbitrarily shuts them off from many markets of the developing world in which they really can't operate alone, in which their competitors get help from their governments, and in which they can best make realistic progress. The increased ability to do more business in more countries should over time mobilize additional resources in support of the neediest countries; that way OPIC can improve its effectiveness in channeling investment to those areas.

3. *Insurance authority.*—OPIC's authority to grant insurance coverage should be broadened to offer protection against the risks of civil strife, in addition to war, revolution or insurrection. Certainly, civil strife is a very real risk in today's world and helping to minimize that risk will remove another disincentive to foreign investment.

The importance of planning now to enhance our strength in the future can scarcely be overemphasized because the U.S. business community must have the opportunity to compete with their counterparts from other developed nations on a more equitable footing.

OPIC is an integral part of this nation's International Economic Policy and Program. No Export Program, no Competitiveness Program, no balanced Foreign Aid Program would be complete without OPIC. The changes that are proposed are critical to making OPIC fully effective.

I would have been pleased to appear before you personally and answer questions, but I shall be traveling on business in the Pacific at the time of your hearings. As you develop your legislation, I will be pleased and honored to assist you and your staff in any way I can.

Respectfully yours,

FRANK A. WEIL.

Senator SARBANES. I want to clarify one thing in the procedural discussion that we had earlier.

My understanding of the way we proceed is that members of the committee—and I know Senator Church has a particularly keen interest of this—would have until the end of the month to make submission of written questions, if they choose, to the various witnesses that we have, because they may need some time to prepare those. Then, upon the receipt of the responses, which, in effect, would constitute completing of the record, we would then go ahead with the printing of these hearings so the whole would be available as a document of reference as we prepare for the actual consideration of the authorization in the next session and as we await the administration's proposal.

I assume you also have written questions because you will want to get some of these people on the record one way or the other, regardless of the outcome of the fall elections.

Senator JAVITS. Yes, Mr. Chairman. That is entirely satisfactory with one understanding, and that is regarding the replies that will come from Government agencies. Let us also fix a date for that.

Let us say that the questions should be in by June 30 and the replies by July 10. Would that be satisfactory?

Senator SARBANES. That is all right with me if it gives the agencies enough time. We will be gone for part of July.

I take it the real purpose is to get a document which will serve as a reference.

Mr. LLEWELLYN. Senator, we can do it in 30 days.

Senator JAVITS. Then why don't we make it July 30.

Senator Sarbanes. Fine. We will get the questions in by the end of June. We will insist upon having the responses by the end of July. Thereafter, we will expeditiously proceed to print the record of these 2 days of hearings and to provide a reference document with respect to the issues that we have been addressing.

Senator Javits. That is fine.

I ask unanimous consent for that, Mr. Chairman.

Senator Sarbanes. Without objection, it is so ordered.

Secretary Hodges, I know you have a time problem, but I am a little hard-put to know exactly how to proceed. I take it that you will have to depart at any moment; is that correct?

Mr. Hodges. I will stay long enough to be able to give my testimony and hope I could be heard as soon as possible.

Senator Sarbanes. How much time do you have, Mr. Secretary?

Mr. Hodges. About 20 minutes.

Senator Sarbanes. I would ask Mr. Llewellyn and Mr. Ehrlich to defer, if they could.

Gentlemen, can you remain? I hope you have blocked out the morning for this purpose.

Mr. Ehrlich. Yes, sir, until about 12:15, if that is satisfactory.

Senator Sarbanes. That might be cutting it a little thin.

Mr. Ehrlich. Then we will stay as long as you want, Mr. Chairman. This is important.

Senator Sarbanes. Secretary Hodges, in order that we may accommodate you, we ask you to please come forward and give us your statement. We will ask you our questions and then you can leave. Of course, this will knock you off the panel we had planned, but we will hear from the rest of the panel later.

Please proceed, Mr. Secretary.

STATEMENT OF HON. LUTHER H. HODGES, JR., DEPUTY SECRETARY, DEPARTMENT OF COMMERCE

Mr. Hodges. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you and I apologize for my own time constraints. I would like to give you my testimony and respond, if I may, in writing to any questions which you might have.

I believe you are well aware that the administration has no objection from a technical viewpoint to the proposed changes provided by Senate bill 2186 since they would increase OPIC's flexibility. The administration has no position at this time on the substantive issue of refocusing OPIC's activity.

I am happy to give you the views of my Department and I might mention also my own personal views as a Director of OPIC.

Mr. Chairman, our export performance is crucial to the health and vitality of our economy, to our fight against inflation, and to the strength of our dollar.

U.S. industries must be able to compete abroad if they are to maintain their ability to compete at home. In short, the realities of today are that the United States no longer can consider its economic future without concern for export growth.

To keep pace with foreign competition, we must encourage and assist more U.S. businesses to begin exporting, particularly the small and medium-sized businesses to which Senator Javits referred. Incidentally, it is the job of the Department of Commerce to get some 20,000 companies that we identify involved who could be exporting but who are not.

U.S. exports grew by some 27 percent in 1979 and are expected to increase by some 20 percent in 1980. In all probability, we will still have a record merchandise trade deficit this year. In the first 4 months of 1980, our trade deficit reached some $15.5 billion, c.i.f., exceeding, on an annual basis, some $46 billion. The simple fact is that the United States has been outsold in world markets and our share of world trade has declined steadily. From a 20 percent share in 1960, it dropped to 17 percent in 1970 and to about 14 percent today. Our world share of manufactures exports stands at about 15 percent, down from 17 percent in 1978 and over 21 percent in 1970.

Clearly this situation and the necessity of having a strong export base for a strong economy has elevated exports to a national priority.

I would like to quote a recent study on U.S. export competitiveness done by the Center for Strategic and International Studies here at Georgetown University which concluded:

> Without public policy measures designed to strengthen our competitive position, especially the export of manufactured products, the United States will continue to lose her shares in several markets, resulting in a continuing decline in American influence abroad. Such an evolution will seriously damage U.S. economic interests in the turbulent 1980; it will have further serious implications, however, as the strategic balance will be determined not only by military strength but economic performance. Failure to redress the balance of trade through a concerted export offensive will erode American economic, strategic, and political positions in the world.

All of this brings me to the role of OPIC in developing countries and the importance of these countries to our economy and trade.

Too few of us realize the importance of developing countries to the United States as export markets. In 1979, U.S. exports to all developing countries totaled some $62.9 billion. We estimate a total of $60.2 billion, which is what we export to the European Community and Japan, which parallels that of the developing nations.

Our growth in manufactured exports is due largely to demand from developing countries. Without the growth of developing country economics, our hopes for improved export performance and increased export opportunities will suffer. Through OPIC we have the opportunity to facilitate increased U.S. investments in the developing countries that will be our important export markets of the future.

The years ahead in the challenging decade of the 1980's will be extremely difficult economically for developing countries, particularly for the nonoil exporting countries. The combined current account deficit in 1980 for nonoil developing countries is expected to be about $70 billion. This year they will spend about one-fourth of their export income on imported oil. Moreover, developing countries' total external debt by some estimates is reaching $400 billion.

Countries will be using $1 of every $2 borrowed to service this debt. To finance their deficits and service their debts, developing countries will be adjusting their economies. Inevitably, they will be cutting back on imports. I would remind you that their cutback on imports will mean a cutback on our exports. OPIC insurance and guarantees can help assure the flow of capital to these countries for levelopment purposes, along with a positive export benefit to the United States.

Next permit me to turn to the role of OPIC in promoting economic levelopment.

Developing countries, particularly the middle and higher income countries, rely increasingly on private capial, skills, and technology o support their development objectives. The purpose of OPIC, as you know, is to encourage U.S. business to provide these necessary components of development through foreign direct investment. Given the political and economic upheavals in recent years, however, U.S. business is reluctant to invest in such unsettled investment climates without the political risk insurance and guarantees offered by OPIC. This s true even for the wealthier developing countries.

These trends, Mr. Chairman, all tie together: Our need for exports, he Third World's need for capital and skills, and the increasingly lifficult economic problems in the years ahead faced by all of us.

As a country, we no longer can afford to let trade take a normal course. Our Government must take a concerted and coordinated course n supporting a new export effort.

Fortunately, we are beginning to do this. The President announced a new export policy in September 1978, aimed at improving direct ssistance to exporters, reducing domestic barriers to exports, reducng foreign barriers to our exports, and securing a fairer internaional trading system. In this effort, we have expanded and revitalized he President's Export Council, of which Senator Javits is a member, s he mentioned. Second, the reorganization plan of 1979 consolidated nd gave new directions to our trade activities. The Department of Commerce is central to this reorganization and has taken on new and expanded responsibilities. Our Department's strong support for estabishment of export trading companies is another avenue that we are pursuing.

Finally, a study on export promotion and export disincentives which we are preparing for the President is in progress and will be forwarded to Congress next month.

I cite these efforts only to point out that a new, active role in promoting exports in this country must be taken on many fronts. Certainly it is the sum of our efforts that will make the difference n our export performance. Every action taken will contribute posiively to the overall results.

For the above reasons, I am personally very pleased to support the rade-related provisions of Senate bill 2186. In particular, I believe OPIC should be granted authority to more vigorously pursue the rade benefits related to investments, with the understanding that OPIC's development role will not be diminished. I believe that deelopment and export goals can be complementary, and one objecive need not exclude the other.

I also agree with Senators Javits and Ribicoff that the $1,000 estriction should be eliminated. I concur with the proposals in the bill to insure civil strife risks and to liberalize the eligibiilty for domestic U.S. corporations. However, based on OPIC's projections for future business, it does not appear that OPIC requires an increase n its insurance and guarantee authority.

Mr. Chairman, we are increasingly aware of the links that exist between investments and exports, not only for initial procurement and follow-on equipment, but also for establishing new and expanded trade markets. There may be a few isolated cases where investments might displace exports in the short run, but I point out to you the positive record OPIC has in generating U.S. exports through its support for U.S. overseas investments. Moreover, by statute and policy, OPIC is precluded from supporting any investments which may have negative economic or employments effects on the United States.

I strongly believe that we must take reasonable actions on any and all fronts that will promote our exports. As a government, we must begin to support our business community to meet competition as other governments do. This means that OPIC should be recognized as having a legitimate role in promoting U.S. exports and that it should be given the mandate and the tools to do so.

Finally, I believe that since 1978, when the current OPIC legislation was enacted, significant international economic change has occurred which justifies a change in OPIC legislation, particularly on the trade issues. Oil prices continue to skyrocket and the higher income developing countries are in much more economic difficulty than they were in 1978. In addition, our new trade program has taken shape since 1978, illustrated by actions resulting from the reorganization plan of January of this year, which made the U.S. Trade Representative Vice Chairman of the OPIC Board of Directors.

Under the proposed legislation, OPIC still would be required to focus its programs on the poorest countries and to insure that all investment projects its supports contribute to host countries' economic development.

Because of the economic events since 1978 and the opportunities awaiting us in developing country markets in the 1980's, the proposals made in Senate bill 2186 raise fundamental issues concerning our investment and trade objectives and their achievement in the challenging years ahead.

Thank you very much, Mr. Chairman.

[Mr. Hodges' prepared statement follows:]

PREPARED STATEMENT OF HON. LUTHER H. HODGES, JR.

Mr. Chairman, members of the committee, I am pleased to be here with my colleagues today to give you my Department's views on the proposed Overseas Private Investment Corporation Act.

S. 2186 would give OPIC an explicit mandate to support investment projects in developing countries which, in addition to meeting OPIC's development criteria and contributing to the host country's development objectives, also would support expansion of U.S. exports. In addition, the bill removes the current $1,000 GNP per capita restriction in recognition that not only do the higher-income developing countries need development capital, but also that they can provide the United States with the greatest export-market opportunities. While the Administration has no objection from a technical viewpoint to these proposed changes since they would increase OPIC flexibility, it has no position at this time on the substantive issue of refocusing OPIC's activities.

THE UNITED STATES AND WORLD TRADE

Mr. Chairman, our export performance is crucial to the health and vitality of our economy, to our fight against inflation, and to the strength of our dollar. Moreover, U.S. industries must be able to compete abroad if they are to maintain their ability to compete at home. In short, the realities of today are that the

United States can no longer consider its economic future without concern for export growth.

To keep pace with foreign competition, we must encourage and assist more U.S. businesses to begin exporting. Although U.S. exports grew by 27 percent in 1979 and are expected to increase by 20 percent in 1980, we may still have a record merchandise trade deficit this year. In the first four months of 1980, our trade deficit reached $15.4 billion (c.i.f.) which on an annual basis exceeds $46 billion.

The simple fact is that the United States has been outsold in world markets and our share of world trade has declined steadily. From a 20 percent share in 1960, it dropped to 17 percent in 1970 and to about 14 percent today. Our world share of manufactures exports stands at about 15 percent today, down from 17 percent in 1978 and over 21 percent in 1970. Clearly this situation and the necessity of having a strong export base for a strong economy has elevated exports to a national priority. A recent study on U.S. export competitiveness done by the Center for Strategic and International Studies at Georgetown University concluded that:

"Without public policy measures designed to strengthen our competitive position, especially the export of manufactured products, the United States will continue to lose her shares in several markets, resulting in a continuing decline in American influence abroad. Such an evolution will seriously damage U.S. economic interests in the turbulent 1980s; it will have further serious implications, however, as the strategic balance will be determined not only by military strength but economic performance. Failure to redress the balance of trade through a concerted export offensive will erode American economic, strategic, and political positions in the world."

THE UNITED STATES AND DEVELOPING COUNTRIES

This brings me to the role of OPIC in developing countries and the importance of these countries to our own economy and trade. Few realize the importance of developing countries to the United States as export markets. In 1979, U.S. exports to all developing countries totaled $92 billion. This nearly equalled our total combined exports—$97 billion—to Canada, the European Community, and Japan. Our growth in manufactures exports is due largely to demand from developing countries. Without the growth of developing-country economies, our hopes for improved export performance and increased export opportunities will suffer. Through OPIC we have the opportunity to facilitate increased U.S. investments in the developing countries that will be our important export markets of the future.

The years ahead in the 1980s will be extremely difficult economically for developing countries, particularly for the non-oil exporting countries. The combined current-account deficit in 1980 for non-oil developing countries is expected to be about $70 billion. This year they will spend about one-fourth of their export income on imported oil. Moreover, developing countries' total external debt by some estimates is reaching $400 billion. Countries will be using one of every two dollars borrowed to service this debt. To finance their deficits and service their debts, developing countries will be "adjusting" their economies. Inevitably, this will include cutting back on imports. And I remind you that their cutback on imports could mean a cutback on our exports. OPIC insurance and guarantees can help assure the flow of capital to these countries for development purposes along with a positive export benefit to the United States.

OPIC AND ECONOMIC DEVELOPMENT

Now I would like to turn to the role of OPIC in promoting economic development. Developing countries—particularly the middle and higher-income countries—rely increasingly on private capital, skills, and technology to support their development objectives. The purpose of OPIC, as you know, is to encourage U.S. business to provide these necessary components of development through foreign direct investment. Given the political and economic upheavals in recent years, however, U.S. business is reluctant to invest in such unsettled investment climates without the political risk insurance and guaranties offered by OPIC. This is true even for the wealthier developing countries.

These trends, Mr. Chairman, all tie together—our need for exports, the Third World's need for capital and skills, and the increasingly difficult economic problems in the years ahead faced by all of us.

A CONCERTED TRADE EFFORT

As a country, we can no longer afford to let trade take a "normal course". We must take a concerted and coordinated course in supporting a new export effort.

Fortunately we are beginning to do this. As you know, the President announced a New Export Policy in September 1978 aimed at improving direct assistance to exporters, reducing domestic barriers to exports, reducing foreign barriers to our exports, and securing a fair international trading system for all exporters. In this effort, we have expanded and revitalized the President's Export Council, of which you are a member, Senator Javits. Second, Reorganization Plan 3 of 1979 consolidated and gave new directions to our trade activities. Commerce is central to this reorganization and has taken on new and expanded responsibilities in this area. Third, my Department's strong support for establishment of export trading companies is another trade avenue we are pursuing. Finally, a study which my Department is preparing for the Congress on export promotion and disincentives is in progress and will be forwarded to you next month.

I cite these efforts only to point out that a new, active role in promoting exports in this country must be taken on many fronts. Certainly it is the sum of our efforts that will make the difference in our export performance. Every action taken will contribute positively to the overall results.

OTHER ISSUES

For the above reasons, I am pleased to support the trade-related provisions of S. 2186. In particular, I believe OPIC should be granted authority to more vigorously pursue the trade benefits related to investments with the understanding that OPIC's development role will not be diminished. I believe that development and export goals can be complementary, and one objective need not exclude the other. I also agree with Senators Javits and Ribicoff that the $1,000 restriction should be eliminated. I concur with the proposals in S. 2186 to insure civil strife risks and to liberalize the eligibility for domestic U.S. corporations. However, based on OPIC projections for future business, it does not appear that OPIC requires an increase in its insurance and guarantee authority.

Mr. Chairman, we are increasingly aware of the links that exist between investments and exports not only for initial procurement and follow-on equipment, but also for establishing new and expanded trade markets. There may be a few isolated cases where investments might displace exports in the short run but I point out to you the positive record OPIC has in generating U.S. exports through its support for U.S. overseas investments. Moreover, by statute and policy, OPIC is precluded from supporting any investments which may have negative economic or employment effects on the United States.

I strongly believe that we must take reasonable actions on any and all fronts that will promote our exports. As a government we must begin to support our business community to meet competition as other governments do. This means that OPIC should be recognized as having a legitimate role in promoting U.S. exports and that it should be given the mandate and tools to do so.

Finally, I believe that since 1978 when the current OPIC legislation was enacted, significant international economic change has occurred which justifies a change in OPIC legislation, particularly on the trade issue. Oil prices continue to skyrocket and the higher-income developing countries are in much more economic difficulty than they were in 1978. In addition, our new trade program has taken shape since 1978—this is illustrated, of course, by actions resulting from the reorganization plan of January this year which made the U.S. Trade Representative Vice Chairman of the OPIC Board of Directors. Under the proposed legislation, OPIC still would be required to focus its programs on the poorest countries and to ensure that all investment projects it supports contribute to host countries economic development. Because of the economic events since 1978 and the opportunities awaiting us in developing-country markets in the 1980s, the proposals made in S. 2186 by Senators Javits and Ribicoff raise fundamental issues conerning our investment and trade objectives and their achievement in the challenging years ahead.

Senator SARBANES. Thank you, Mr. Secretary.

First of all, let me ask you this. Why should OPIC have any development aspect to it? From your point of view, would you prefer that it simply be able to make its decisions on a straight trade-related basis?

Mr. Hodges. I was emphasizing that because I think that is the new direction and important direction for us. I don't think that we should ignore the development objectives at all, and I think that they can be compatible and complementary.

Senator Sarbanes. Well, they obviously introduce another standard. I take it that you are essentially concerned with the question of maximizing the export situation. Would you not prefer a situation in which OPIC was able to make its decisions straightforwardly on a trade-related basis?

Mr. Hodges. My job is exports and that is my concern. My greatest concern for the country right now is its economy and trade relations. But I don't think we should ignore the development aspects. I think that also is a proper role for our Government to emphasize. We can do both.

Senator Sarbanes. How do you blend those in the decisionmaking process?

Mr. Hodges. The staff and the board blend them.

Senator Sarbanes. How would you blend them?

Mr. Hodges. I would keep the emphasis on development, but be certain to give OPIC the flexibility to go into developing countries that have a higher per capita income. We should be certain that we tie U.S. exports to the development aid that we provide.

Senator Sarbanes. What do you mean by "tie it?"

Mr. Hodges. Require that U.S. exports, when looking at a project, provide benefits to U.S. manufacturers.

Senator Sarbanes. Then you would make that a criteria that had to be met, is that correct?

Mr. Hodges. Yes, sir, to some extent, and based on the circumstances. I would not have a certain dollar amount or a certain percentage amount as a fixed requirement in all circumstances. I would have the flexibility to judge each case.

Senator Sarbanes. Are you in favor then of eliminating any dollar figure in terms of the countries in which OPIC can chose to function?

Mr. Hodges. Yes, sir.

Senator Sarbanes. Then it should be unlimited? OPIC can go into the richest, most developed countries in the world?

Mr. Hodges. Still with the mandate that the emphasis should be on development, though.

Senator Sarbanes. But your emphasis is on trade.

Mr. Hodges. Yes; my personal emphasis is on trade. But I also, as a citizen, think we have a development objective, and I think OPIC is a good tool to provide both. I just want it to not do only one.

Senator Sarbanes. Would your emphasis on development preclude an OPIC project in a highly developed country for trade purposes?

Mr. Hodges. It could, yes, sir.

Senator Sarbanes. But would it?

Mr. Hodges. Yes, sir.

Senator Sarbanes. Under your approach, could OPIC either insure or guarantee in the most highly developed countries on the basis of the trade consideration?

Mr. HODGES. No, sir. I do not think we have that vehicle in our Government at this moment, and I don't think that that is necessarily needed at this moment.

Senator SARBANES. You had figures regarding the decline of the U.S. export position, that is, our share of world trade and our share of manufactures exports. How do you relate that to OPIC, if you do, in terms of causal connections? Is there any such causal connection?

Mr. HODGES. I don't think there is a causal connection between the two. I cited those statistics which I think are alarming and I think that we need to do everything we can to reverse it, including letting OPIC emphasize exports or trade.

Senator SARBANES. Well, now, what OPIC does is it either insures or guarantees American investments against certain noncommercial risks so that American investors are willing to put their money into a foreign country.

Mr. HODGES. Yes, sir.

Senator SARBANES. How are you going to use that to address the export questions?

Would it be by having as a criteria when determining whether a project should receive OPIC insurance or guarantee that the investment in question result in the purchase of American goods? Is that the way you would do it?

Mr. HODGES. Sir, we basically believe that trade follows investment and that the reason for OPIC is to encourage that investment. We believe the trade will follow.

Senator SARBANES. Would you leave the decision to be made privately and take your chances on it, or would you somehow or other seek to insure that you would get the trade from the investment?

Mr. HODGES. I would hope that we could insure that it would happen. But I don't think that the specific criteria are something that can be legislated. I think that management, in granting the insurance and in working with its client, can be certain that there are trade benefits to the United States.

Senator SARBANES. Suppose we guarantee an investment or insure it, and then the investors make all their purchases in one of the other developed countries. Would you contend that OPIC really ought to be tied much more closely to trade if we are going to, in effect, provide security for this investment opportunity? If it is contended that it will help our exports and not harm jobs here, shouldn't we have some kind of linkage to assure that result?

Mr. HODGES. That the U.S. firm would use U.S. products?

Senator SARBANES. Yes.

Mr. HODGES. I think that should be spelled out between the management of OPIC and the client as they do business.

Senator SARBANES. Should that criterion be given to the management of OPIC as one of the standards that they have to meet?

Mr. HODGES. A general criterion, yes.

Senator SARBANES. Senator Percy, do you have any questions?

Senator PERCY. Thank you, Mr. Chairman.

I simply want to reaffirm first my belief in OPIC and the invaluable contribution it has made. I want to emphasize that it is self-sustaining, covering its administrative and operating costs out of the fees that it charges.

Mr. Llewellyn, does it actually show a profit?

Mr. LLEWELLYN. Yes, sir.

Senator SARBANES. Senator Percy, if I could interrupt for just a moment, let me say that Secretary Hodges must leave as soon as possible. We heard from him out of order in order to give him the opportunity to present his case and answer our questions.

I would ask that if you have any questions for him, we should dispose of those and then excuse him.

Senator PERCY. I see.

Mr. Secretary, at what time must you leave?

Mr. HODGES. Whenever is convenient to you, sir.

Senator SARBANES. I really think he is beyond his time.

We will keep Mr. Llewellyn and Mr. Ehrlich here, though.

Senator PERCY. Then let me put this question to you, Mr. Hodges, and the same question can later go to the other witnesses. This relates to a question asked by the Chair, though with a slightly different emphasis.

Do you see any conflict between a trade and a development mandate for OPIC, and if there is a conflict, which would or should have primacy, in your judgment? Should it be development or trade?

Mr. HODGES. As I personally mentioned, I do not see there is a conflict. I think that development has the primacy at this time and that that is appropriate.

Senator PERCY. Let's just say that conflict may come, even with the expanded limits, if you are bumping up against the ceiling. Let's say there is an opportunity available for development assistance in a very low income country and you have an opportunity for trade expansion in a more developed country. If you had to choose between the two, which would the Commerce Department actually prefer and to which would it give primacy?

Mr. HODGES. We would somehow do them both.

Senator PERCY. Maybe you would just come back for more authority.

Mr. HODGES. We would somehow do them both.

We would just want to be certain that there are trade benefits to the development and financing.

Senator PERCY. Well, I think we all recognize both are essential roles. I do feel that there is an increasing sense of urgency for trade now.

A $4-per-barrel price increase for oil was announced just today. We must remember that for years that was the total cost of one barrel of oil. Now it is just one price increase in one day.

How much do we have to expand our trade just to cover imported oil for survival? The strength of the dollar abroad is waning because of increasing fees for imported raw materials. Our economic strength is being sapped because of our lack of exports.

We also have to take into account how aggressive other countries are, how really resourceful they are in trade. Everywhere I go I see Japanese trade missions. They are really out there. We have been losing ground.

I feel that the bill before us, establishing a real trade purpose for OPIC, is extraordinarily important. We really must try to fulfill both mandates. But we certainly have to accelerate the process of bringing more American companies into the trading process and being much more competitive and aggressive in foreign markets for our own economic well-being.

In this bill, OPIC would become an independent agency with its own statutes. Does Commerce support that?

Mr. **Hodges**. No, sir.

I think the current organization, with OPIC as a part of IDCA, is something only recently established and I think it should be followed. I think it can work.

Senator **Percy**. As you know, in the past I have felt that OPIC should be an independent agency. Just as Senator Javits has said that he will reevaluate his position, I certainly am willing to look at my own position in the light of experience and circumstances. I understand that we will receive a study on this.

I do not look upon the independent status provision as the most important aspect of this particular bill. There are other provisions of the bill that I do consider at least as important. While you are here, I want to reemphasize my enthusiasm for OPIC, my commendation for the job that has been done. I join with you in commending Mr. Llewellyn and I certainly want to provide every measure of support I possibly can to this activity which I consider very much in the national interest.

Thank you very much.

Mr. **Hodges**. Thank you, sir.

Senator **Sarbanes**. Mr. Secretary, we thank you for your testimony. We may have questions to submit to you for your response for the record.

Mr. **Hodges**. I would be pleased to reply to them, Mr. Chairman.

Senator **Percy**. Now, if either Mr. Llewellyn or Mr. Ehrlich have any comments on the conflict they may see between trade and development, I would appreciate a response. If there is conflict, where should there be primacy?

I would appreciate that or any other comments they may have, but I have no further questions, Mr. Chairman.

Mr. **Ehrlich**. Both the administration and the Board agreed that adding a trade purpose ought not to permit OPIC to undertake projects solely because they have trade benefits. Development value must be the first consideration. That was the judgment of both the Board and the administration.

The Board agreed that they complement and supplement each other. I think OPIC will be a more effective development instrument with a trade purpose just as I think it will be a stronger instrument because of the substantial development benefits that it provides.

I might add, too, that the Board is well aware of the kinds of concerns that might be raised in terms of trade effort. We have, for example, a Board policy to prohibit significant procurement for a project from rich, industrialized nations, other than the United States as just one part of that overall effort to focus on U.S. benefits on the one hand and benefits to developing countries on the other.

Senator **Percy**. Thank you.

Do you have any comments at all, Mr. Llewellyn?

Mr. **Llewellyn**. I concur with that, Senator. I do not see any problem or any conflict. I think we have more than enough resources to do both. Frankly, I think we can pretty much impute a U.S. trade benefit to almost everything we do right now.

As Mr. Ehrlich pointed out, there is a Board policy which prohibits ignificant procurement from other industrialized nations. I think we an do a good job.

Senator **Percy**. I would very much appreciate it, as you get more nvolved in the trade area, if you could give us your comments and uggestions on what we can do to remove impediments, to provide greater incentives, to stimulate and encourage the private sector in this egard. It just seems to me that other governments are doing more in his area than ours seems to be doing; the partnership seems to be a loser and better partnership.

We have always believed for many reasons that the private sector hould be left to its own resources but we do place impediments in its way many times. There is the income tax and problems against other ountries, and so on.

Any ideas which you can offer to us on how to stimulate the trade ector of our economy—whether for industrial, manufactured goods, griculture, whatever it may be—would be appreciated. We have a eal need to move ahead very, very rapidly. Adding OPIC to our rsenal of weapons to improve our position is a giant step forward, in my judgment. I think it will be welcomed by the business community ecause OPIC is a popular entity with them. It does some things that business cannot do for itself.

Any ideas you can pass on to us would be welcomed. We certainly would appreciate your taking the initiative in that regard. We all are ooking for ideas that will help in this field.

Mr. **Llewellyn**. Yes, sir.

Senator **Percy**. Thank you, Mr. Chairman.

Senator **Sarbanes**. Did the witnesses wish to respond?

Mr. **Llewellyn**. We would be happy to do that.

Senator **Sarbanes**. Gentlemen, I have a series of questions I would ike to ask you. I have held off all morning to permit other Senators to have an exchange with you.

The first question, which concerns me very much, concerns the Javits-Ribicoff bill which, as a policy matter, puts forward the prospect that trade benefits should be considered as a criterion for OPIC ction. Is that correct? That is one of the major changes which the Javits-Ribicoff bill proposes in policy. Is that correct as you pereive it?

Mr. **Ehrlich**. Yes.

Mr. **Llewellyn**. Yes, sir.

Senator **Sarbanes**. If that is the case, on what authority did OPIC Board member's at the May 13 OPIC Board meeting adopt an amendment to what I understand is the general policy and guidelines of ountry eligibility with respect to OPIC programs, which provided an xception to the economic criterion of limiting OPIC programs to ountries with per capita GNP of not more than $1,000 in 1975 dolars. The exception is for a project promising significant net U.S. rade benefits; is it not?

Mr. **Ehrlich**. Yes.

Senator **Sarbanes**. How do you move to that position in advance of ongressional consideration and approval and authorization of such policy matter?

I don't see that policy contained in section 231 of the Foreign Assistance Act of 1961, as amended, which sets forth the purposes and policy by which OPIC is to be guided. Nor is it provided for in the explanatory statement of the Committee on Conference which accompanied the conference report in H.R. 9179, the 1978 reauthorization bill which extended OPIC's legislative mandate, which did give an induction of the kinds of exception for the $1,000 per capita limit that would be accepted.

Mr. Ehrlich. The Board, in adopting that resolution, maintained the position that I stated before, that development purposes are the primary aim or mission of the institution. It did conclude that we could, at the same time, promote trade and trade interests in ways that were not inconsistent with that development purpose and are certainly not inconsistent with the existing statutory mandate. The Board thought it was important to state its view that when consistent with development and development interests, promoting trade itself was an important effort in terms of long-term U.S. economic interest. I do not think that is in any way inconsistent with the existing statutory mandate.

We would prefer, in terms of the Board's judgment, to have an explicit statement in the statute, but, given the statutory mandate as it exists, it is the judgment of the Board that that action was wholly consistent with the overall mandate.

Senator Sarbanes. But where do you find that?

I am prepared to examine, as a fresh proposition before the Congress, the question of whether an additional purpose should be added to the OPIC mission and, if so, how that additional purpose of encouraging trade can be harmonized with the objective of development assistance. But it seems to me that the OPIC Board has jumped ahead of proper congressional consideration of that additional goal or objective.

Mr. Ehrlich. The Board saw its action as within the existing legislative mandate.

Senator Sarbanes. Upon what basis do you make that judgment?

Mr. Ehrlich. Congress left to the Board the flexibility and the authority to make exceptions to the $1,000 limitation. Given the stress on trade in the reorganization plan No. 3, and the existing stress on trade from a number of aspects, it seemed well to the Board to make an exception to the $1,000 limitation, and that is authorized by the statute, but to do so within the overall development mandate. The Corporation is called on to further, to the greatest extent possible and in a manner consistent with its goals, the development goals, the balance of payments, and the employment objectives of the United States as stated in section 231, subsection (h) of the statute.

In adopting this exception to the $1,000 limitation, the Board saw its action as consistent with that overall mandate.

Senator Sarbanes. Well, I am going to include in the record all of section 231 of the Foreign Assistance Act of 1961, as amended.

[The information referred to follows:]

TITLE IV—OVERSEAS PRIVATE INVESTMENT CORPORATION

SEC. 231. CREATION, PURPOSE AND POLICY.—To mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States, there is hereby created the Overseas Private Investment Corporation (hereinafter called the "Corporation"), which shall be an agency of the United States under the policy guidance of the Secretary of State.

The Corporation, in determining whether to provide insurance, financing, or reinsurance for a project, shall especially—

(1) be guided by the economic and social development impact and benefits of such a project and the ways in which such a project complements, or is compatible with, other development assistance programs or projects of the United States or other donors; and

(2) give preferential consideration to investment project in less developed countries that have per capita incomes of $520 or less in 1975 United States dollars, and restrict its activities with respect to investment projects in less developed countries that have per capita incomes of $1,000 or more in 1975 United States dollars.

In carrying out its purpose, the Corporation, utilizing broad criteria, shall undertake—

(a) to conduct financing, insurance, and reinsurance operations on a self-sustaining basis, taking into account in its financing operations the economic and financial soundness of projects;

(b) to utilize private credit and investment institutions and the Corporation's guaranty authority as the principal means of mobilizing capital investment funds;

(c) to broaden private participation and revolve its funds through selling its direct investments to private investors whenever it can appropriately do so on satisfactory terms;

(d) to conduct its insurance operations with due regard to principles of risk management including efforts to share its insurance risks and reinsurance risks;

(e) to the maximum degree possible consistent with its purposes—

(1) to give preferential consideration in its investment insurance, reinsurance, and guaranty activities to investment projects sponsored by or involving United States small business; and

(2) to increase the proportion of projects sponsored by or significantly involving United States small business to at least 30 percent of all projects insured, reinsured, or guaranteed by the Corporation;

(f) to consider in the conduct of its operations the extent to which less developed country governments are receptive to private enterprise, domestic and foreign, and their willingness and ability to maintain conditions which enable private enterprise to make its full contribution to the development process;

(g) to foster private initiative and competition and discourage monopolistic practices;

(h) to further to the greatest degree possible, in a manner consistent with its goals, the balance-of-payments and employment objectives of the United States;

(i) to conduct its activities in consonance with the activities of the agency primarily responsible for administering part I and the international trade, investment, and financial policies of the United States Government;

(j) to advise and assist, within its field of competence, interested agencies of the United States, and other organizations, both public and private, national and international, with respect to projects and programs relating to the development of private enterprise in less developed countries and areas;

(k) (1) to decline to issue any contract of insurance or reinsurance, or any guaranty, or to enter into any agreement to provide financing for an eligible investor's proposed investment if the Corporation determines that such investment is likely to cause such investor (or the sponsor of an investment project in which such investor is involved) significantly to reduce the number of his employees in the United States because he is replacing his United States production with production from such investment which involves substantially the same product for substantially the same market as the United States production; and (2) to monitor conformance with the representations of the investor on which the Corporation relied in making the determination required by clause (1); and

(l) to decline to issue any contract of insurance or reinsurance, or any guaranty, or to enter into any agreement to provide financing for an eligible

> investor's proposed investment if the Corporation determines that such investment is likely to cause a significant reduction in the number of employees in the United States.

Senator Sarbanes. Frankly, I think the Board has overstepped. I think the proposal put to the Congress by the Javits-Ribicoff legislation is a reasonable proposition to be examined, but for the Board, in its Board decision of May 13, adopted less than a month before this hearing in which it adopts the criterion of allowing exceptions to the $1,000 per capita limitations for projects promising significant net U.S. trade benefits it seems to me is to assume a mandate which the Congress has not yet given.

Mr. Ehrlich. Certainly the Board did not see its action as doing other than meeting the mandate within the statute to make exceptions as it thought should be made within the statute.

Senator Sarbanes. When one examines title IV, section 231(h), of FAA which discusses U.S. balance of payments effects of OPIC it is within the text of the general statement that OPIC is to mobilize and facilitate the participation of U.S. private capital in the fields of economic and social development of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States.

Section 231 of the FAA, "The Creation, Purpose and Policy" states that—

> The Corporation, in determining whether to provide insurance, financing, or reinsurance for a project shall especially (1) be guided by the economic and social development impact and benefits of such a project and the ways in which such a project complement, or is compatible with, other development assistance programs or propects * * * and—

I repeat—

> and—give preferential consideration to investment projects in less developed countries that have per capita incomes of $520 or less in 1975 United States dollars, and restrict its activities * * * in less developed countries that have per capita incomes of $1,000 or more in 1975 United States dollars.

The conference report reauthorizing OPIC until September 30, 1981 recognized certain categories of exceptions adopted by OPIC's Board of Directors, for small business, cooperative projects, and mineral and energy projects or certain case-by-case exceptions such as projects with unique developmental impacts, determined on a case-by-case basis.

Now it seems to me that the OPIC Board has adopted, as an exception, what constitutes an essential issue in the bill that is before us. Only Congress may decide whether trade should be established as a proper criterion of exception to the guidelines set forth by Congress. Also, Congress would have to address and provide guidelines on how you use it or blend it with the development mandate. But it seems to me that the Board simply has jumped ahead in making its May 13 decision. Has it not?

Mr. Ehrlich. I don't believe so, Senator. I emphasize that the OPIC legislation still does require the preferential consideration for projects in the poorest countries, and a good many of our policies adopted by the Board contain preferences for those countries. None of those would be or have been changed.

The statute does, as we read it, provide flexibility now to the Board to make exceptions to that $1,000 restriction. The overriding develop-nt focus that must be maintained is one the Board considers very riously, and the exception that you mentioned was made within that ntext and we believe was made within the flexibility allowed by the tute.

The statement now reads:

> Give preferential consideration to investment projects in less developed couns that have per capita incomes of $520 or less in 1975 U.S. dollars—

Which the Board does—

> l restrict its activities with respect to investment projects in less developed ntries that have per capita incomes of $1,000 or more in 1975 U.S. dollars.

The Board does restrict those activities and does have a set of ceptions for activities which can take place in those countries, inuding the ones you suggested and this one in addition.

Senator SARBANES. Yes, but I find no congressional basis for this ception, whereas the other exceptions have been explicitly recognized the Congress at one point or another.

Mr. EHRLICH. As I recall, the conference report permits the Board make further categorical exceptions from time to time, and hence Board made the exception for developmental projects having sigicant trade benefits to the United States.

Senator SARBANES. Well, why do you need a statute, then?

You don't need the provision of the statute that relate to trade, you, under this interpretation of your authority?

Mr. EHRLICH. These are exceptions to a basic policy. The Board, urging the statutory change, did so so it would not be an exception, t, rather, part of the basic mandate of the institution.

If the Congress concluded that this was a mistake, obviously the rporation would not do it. If the Congress concluded that there ould not be a trade exception to the $1,000 limitation, the instituon would not do it, either. But as we understood the existing statury authorization, it does permit this.

Senator SARBANES. Well, we will develop a legal opinion on that sue.

Let me ask you another question.

Why do you remove the $1,000 restriction altogether instead of justing the dollar figure?

Mr. EHRLICH. It was the judgment of the Board that the $1,000 limition is itself an arbitrary one. The focus ought to be on developing untries, and there is not any particular dollar limitation that lent self to statutory inclusion. Rather, what the Board should do in anging its policies as circumstances change is to be sure that we e dealing exclusively with developing countries. Certainly, a $1,000 r capita income country is not a wealthy one.

Second, it ought to draft its policies in a way to take maximum vantage of the abilities to have development in those countries. his did not seem to be furthered by the more or less arbitrary per pita GNP cutoff. Thus, the Board did not think that was needed, st as it did not exist in the statute in earlier years.

Senator SARBANES. Why did the Board not want to preclude that ncern by completely removing the ceiling to permit OPIC activities the most highly developed countries?

Mr. EHRLICH. I am absolutely confident that the OPIC Board will t permit activities in highly developed countries.

Senator SARBANES. By the wise exercise of its judgment; is that correct?

Why shouldn't the Congress preclude that by a figure?

Mr. EHRLICH. I certainly think the mandate to focus on developing countries and on their development—which is in the existing statute and is in, as far as I know, all proposed legislation—is a very important one. It ought to be part of the law, and I read it as precluding investment in highly developed countries.

Senator SARBANES. Well, why don't we make sure that it is precluded by using a dollar figure? What is the problem in that?

I can understand an argument where you might say that a $1,000 figure won't work because there are a lot of developing countries that are above $1,000 per capita where we ought to be engaged in activities and therefore we need *x* dollars in order to accomplish our purpose; but that is not your proposal. Your proposal is to have no figure whatsoever. This then opens up the prospect that, in fact, the OPIC authority can be used in the most highly developed countries.

You say that you won't do that, but it is possible to do it.

Mr. EHRLICH. Not if the legislation requires that we work only in developing countries.

Mr. LLEWELLYN. Senator, I think you have to go back a bit.

We always did business only in developing countries since 1971, when we were put into business ourselves. This arbitrary number of $1,000 for some reason was added to our statute in 1978 in the hope that people would believe that we were doing business only in the poorest of the poor of the developing countries. What we are saying to you is that we can do business in the developing countries across the board, in developing countries as designated and put into that category by the World Bank. We use World Bank figures. We have no problem using World Bank figures and letting them designate what are developing countries.

The $1,000 per capita income limitation, however, is an arbitrary one. It does not allow us to do our maximum in terms—if you wish, and I am being very parochial about this one—of our revenue stream, our ability to generate reserves, our ability to have things to go into the poorest of the poor countries, and our ability to spread out our portfolio.

If I have to continue to load up more and more projects in a certain segment of the spectrum, as opposed to putting my projects across the spectrum, I am not going to be acting on a good actuarial basis. It is not anathema to talk about a country as developing and yet doing better than the $1,000 figure. I don't know where this "gospel" comes from that $1,000 is the breakthrough point that will make you either holy or unholy.

We have never had that before. It is something that was just thrown in at the last minute to make the thing more palatable. It just does not make any sense.

If a country is in a developing status and in the developing stage, it is a developing country.

I don't want to do business in France. I don't want to do business in England. I am not fighting to do business in England. What I am fighting to do is to go where the growing marketplaces are, where the American businessman has the greatest potential for doing business.

e gave you the figures. They were $10 billion 10 years ago and oillion today. They will be more the next time around. Nobody buy our insurance if we were given authority to write insurance nd the world. Nobody would pay a premium to me to do business ngland.

nator Sarbanes. If I could summarize all of that, then, I take at you would have no objection to some criterion that would lude OPIC activities from developed countries and limit them eveloping countries. We may differ on what the line is between loping and developed, but you accept that you should be operat- n developing and not developed countries?

r. Ehrlich. Absolutely.

enator Sarbanes. But your proposition put to us does not do that; at correct?

r. Ehrlich. We would be pleased to work with you on a definition eveloping countries that would exclude the kind of concern you e raised. There is no problem with us doing that.

enator Sarbanes. Mr. Ehrlich, in your statement you say, "For nple, OPIC estimates that more than 60 percent of initial procure- t for the OPIC projects undertaken in the past year will come n U.S. sources." How is that estimate made and how reliable it it?

Ir. Ehrlich. May I return to Mr. Llewellyn, whose staff provided details of the estimate.

Ir. Llewellyn. The estimates are made on the part of the depart- t called "Development" and our operating departments. They go r every insurance contract, every financial commitment that is to nade. There are statements and affirmations made on the part of investor as to what will be the increments that are going into the ject. We accept those and we accept those in conjunction with the erage and with the financing.

'urthermore, we have people going through countries and looking projects, taking a look at the situation and checking. Furthermore, ask for information from the companies to determine whether they meeting their commitments.

Senator Sarbanes. When you say that most of the remainder are ning from the host country sources, what percentage would "most" ompass?

Mr. Llewellyn. Our basic prohibition is that we will not provide urance or financing for projects that will take significant amounts equipment or other resources from other major industrialized ions. As to the part that does not come from the United States, if comes from another developing country, we have no particular quirement or particular bias.

As for the word "most," I guess you would have to say that we k at these things on a case-by-case basis. We look at it in terms of nether it is significant. It is a quantitative analysis.

Senator Sarbanes. Is this discussed in somewhat greater detail in e material you have submitted to us?

Mr. Llewellyn. I believe some of this is in the bigger part of our timony. If it is not, we would appreciate your submitting a question us and we will give you back a specific answer.

Mr. Ehrlich. Let us try to give you the best estimate that we can just what "most" means.[1]

See p. 218.

Senator **Sarbanes**. Is it your view that you should be able to extend your insurance and guarantees to already existing investments in other countries?

Mr. **Llewellyn**. The Board's position on that, sir, was that it would not approve of us assisting existing investments. However, we do assist expansions of existing projects.

Mr. **Ehrlich**. It was the judgment of the Board that it should not cover existing investments.

Senator **Sarbanes**. Mr. Ehrlich, in your statement you say, "Currently the act provides that the Secretary of State provides policy guidance for OPIC." Is that correct?

Mr. **Ehrlich**. Yes, it is.

Mr. **Llewellyn**. Foreign policy.

Mr. **Ehrlich**. That means foreign policy guidance.

Senator **Sarbanes**. Is that what the statute says?

Mr. **Ehrlich**. The statute, as I recall, uses just the words "policy guidance."

Senator **Sarbanes**. Now you want it written so that it says foreign policy guidance from the State Department, and development policy guidance from IDCA. Is that correct?

Mr. **Ehrlich**. Yes.

Senator **Sarbanes**. What is the meaning of that change?

Mr. **Ehrlich**. It makes explicit what is, in fact, the operational reality today. Every entity of the U.S. Government receives foreign policy guidance from the State Department. I do in terms of IDCA, and every other department does as well. Similarly, they receive development guidance from IDCA. It simply would make this explicit.

Senator **Sarbanes**. How much foreign policy guidance does OPIC receive from the State Department, Mr. Llewellyn?

Mr. **Llewellyn**. In certain instances, total foreign policy guidance; in other instances, minimum foreign policy guidance.

Now what are the instances? For example, human rights policy guidance is one. All projects that have to be approved for human rights, as mandated by Congress, are submitted to the State Department for approval. They either are approved or disapproved at the State Department in regard to human rights guidance. We do not have anything to do with human rights criteria as imposed.

In regard to countries, we get advice and counsel about countries and conditions in countries from the State Department. We work through our ambassadors and our commercial attachés, and with the Assistant Secretary in the Department.

Senator **Sarbanes**. Mr. Ehrlich, I would like some exposition from you of how you perceive you would blend the development question and the trade question if you got the legislation which established the trade as an additional goal or objective.

Mr. **Ehrlich**. As I indicated before, the view of the Board, and the view of the administration is that the development aim would continue to be the primary one. Individual projects would be viewed, however, in terms of the extent to which they would promote U.S. trade interests, and we would do an essential balancing between those considerations, recognizing the primacy of the development area.

To do that, the interagency task force to which I earlier referred worked out a working definition of trade benefits. I am not saying this

cessarily the best one or the only one, but it did show us—and I can
nit it for the record, if you like—the way in which trade benefits
oe blended and, as I said, not only complement the development
but, indeed, strengthen it in the ways I suggested. For particular
ects we would continue to say what are the development benefits,
will it strengthen the development of the particular Third World
try. We will also look to see the extent to which it promotes trade
g the lines suggested by that working definition.
lo not see the likelihood of conflict, but, instead, that these would
together.

nator **Sarbanes**. Senator Javits, do you have any more questions?

nator **Javits**. Thank you, Mr. Chairman, but I do not.

nator **Sarbanes**. Gentlemen, thank you. I am sure there will be
questions submitted to you for your further response for the
rd.

r. **Ehrlich**. We would be pleased to respond to them. We are
sed to work on the issue of defining developing countries or such
r questions as may occur to you.

nator **Javits**. Thank you very much, gentlemen.

r. **Ehrlich**. Thank you, Senator.

r. **Llewellyn**. Thank you.

nator **Sarbanes**. Mr. Hinton, would you please come forward
e witness table. I am told that Secretary Bergsten had to leave,
ow we will hear from Mr. Hinton.

TEMENT OF HON. DEANE R. HINTON, ASSISTANT SECRETARY, REAU OF ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT STATE

r. **Hinton**. Thank you very much, Mr. Chairman.
have submitted a statement which I would appreciate being placed
e record. In the interest of brevity, I would make just a few com-
s on what I consider to be most important in that statement.

nator **Sarbanes**. Your statement will be included in the record
r your oral remarks.

r. **Hinton**. Thank you, Mr. Chairman.
share the view that an explicit recognition in the reauthorization
PIC of the importance of the trade function would be desirable.
must say that my own view is that it really has been there in an
icit fashion all along.
cond, on the substantive issue of the $1,000, you have heard the
ion of the Board, of which I am a member, and the position of
dministration that we are not objecting. It would seem to me that
is room for some flexibility here, an enhanced flexibility that one
l use to deal with the problem.
have been particularly concerned, Mr. Chairman, by two aspects
e bill. I understand that probably I need not have been concerned,
t is important that the State Department provide policy guidance.
ur view it is important that the Case Act apply to OPIC. I under-
d there probably is no great problem with that.
hose are the points to which I have attached most importance.
am very pleased to take your questions, Mr. Chairman.
Ir. Hinton's prepared statement follows:]

Prepared Statement of Hon. Deane R. Hinton

Thank you for the opportunity to comment on S. 2186, "To provide for the Overseas Private Investment Corporation to mobilize and facilitate investment in developing countries in order to increase trade with, and contribute to the development of, such countries," introduced by Senators Javits and Ribicoff on December 20, 1979.

We favor the extension of OPIC's authority. Of greatest interest to the Department are proposals in the bill concerning OPIC's status as an independent agency, its trade purpose, and the elimination of the $1,000 per capita income restriction.

We support careful consideration of creative uses of OPIC to expand U.S. exports and we believe that this could be accomplished under OPIC's current legislation, the Foreign Assistance Act of 1961, as amended. However, in our view, any such effort must be achieved within OPIC's developmental mandate.

U.S. Government policy in general is neither to promote nor discourage inward or outward investment flows. However, one corollary of U.S. investment policy—in effect for over twenty years—has been to facilitate investment flows to developing countries, thus supplementing the flows of funds from official development assistance. OPIC has its origins in this policy extension. Investment flows to developing countries remain a matter of particular concern to the Administration.

Private capital transfers can supplement official aid. More importantly, such transfers can contribute to entirely different aspects of development which official aid is not equipped to provide, including the expansion of industry and employment, technology acquisition, and other benefits that may be derived from the output of final goods and services particularly in the resource, industrial and service sectors. U.S. policy includes appropriate assistance to those developing countries wishing to attract foreign direct investment. OPIC is the chosen instrument for that purpose.

The impact of outward direct investment by U.S. firms on the U.S. economy has been the object of controversy in recent years. The evidence, we believe, is insufficient to establish whether there is an overall positive—or negative—correlation between U.S. foreign investment and trade. However, it is possible to identify particular foreign direct investments which would have a beneficial effect on U.S. production and employment.

OPIC is already acting in this area. For example, the OPIC Board of Directors approved a substantial loan guaranty to support the establishment of a transport company that would utilize 80 trucks and trailers of U.S. manufacture. In its future operations, OPIC might wish to establish a policy emphasizing development projects with significant trade potential. We favor creative uses of OPIC to directly support U.S. exports generally within its present mandate. We look forward to studying with OPIC concrete ways of achieving this important goal.

While we have no objection to the general thrust of this bill, there are some provisions we cannot support. One of our primary concerns is the removal of the provision presently included in Section 231 of the Act, which placed OPIC under "the policy guidance of the Secretary of State." Policy guidance by the Secretary of State is, in our view, essential to ensuring that OPIC's funds and authorities will be used in a manner consistent with the foreign policy interests of the United States.

OPIC's roles as insurer, guarantor, or lender to eligible U.S. investors bring it into close contact with host governments of countries in which it operates. OPIC contacts with host governments occur in a variety of contexts ranging from the initiation of negotiations of bilateral agreements covering OPIC programs to the resolution of expropriations and other disputes. Such contacts, have significant and complex foreign policy implications. Section 231 presently ensures that these contacts are made under the careful guidance of the Secretary of State.

We note that Section 101 of the proposed Bill would require OPIC to "conduct its activities in consonance with the international trade, investment, financial, development, and foreign policies of the United States Government." This provision, in our view, offers little practical assurance that necessary foreign policy concerns would be fully integrated into OPIC's operations. This is especially the case since the proposed legislation would vest the responsibility for doing so exclusively with OPIC.

For these reasons we also oppose the new authority Section 109(1) of the proposed Bill would vest in OPIC, namely the authority to make and perform

reements with foreign governments, agencies of foreign governments, and in-
rnational organizations. It would not be consistent with the spirit of recent
nendments to the Case Act to fragment the existing coordination with respect
OPIC bilateral agreements under the Department's Circular 175 Procedure,
actices recently confirmed by Section 1–604 of E.O. 12163 implementing the
CA reorganization.

IDCA's responsibilities for the coordination of U.S. development policy would
so be undermined by the Bill. As noted above, the fundamental rational sup-
rting OPIC has been its development objectives. Although OPIC's focus is on
evelopment" in a different sense than AID or the multilateral development
nks, it is essential that its activities be complementary to, and coordinated
th, these other efforts. Therefore, any modification of existing law should
ntinue to reflect IDCA's role.

A second feature of the proposed Bill which requires special consideration is
e provision for removal of the $1,000 per capita income restriction. The Admin-
ration has no position on whether or not OPIC's activities should be signifi-
ntly refocused on higher income countries. However, there may be merit in
eralizing the current limitation in order to increase OPIC's flexibility.

The weakest link in U.S. official relations with the developing world is with
e newly industrializing or middle income countries. Having successfully
sisted these countries to develop to the point where the emphasis in our
lationship is on "trade, not aid," we find that we have been able to discontinue
r economic aid to these countries. There are few bilateral programs of any
nd which allow U.S. participation in the further economic development of
iddle income countries. Yet, often their developmental needs remain great, as
ey seek to raise living standards above the barely adequate to a more comfort-
le level and to diversify their economy into a greater range of industrial pro-
ction. For a large part of the population, individual income levels in middle
come countries often remain below the $1,000 per capita average. At this stage,
ivate investment is most often the ideal complement to their needs, and indeed,
ay be more effectively applied than at an earlier point in their development.

It should be noted that current Board policy already allows OPIC some
xibility to operate its program in otherwise eligible countries with per capita
comes greater than $1,000 (1975 dollars) in the following circumstances:
inerals and energy projects; projects sponsored by U.S. business or cooper-
ives; projects to reinsure private underwriters of political risk insurance, when
e investments to be reinsured are consistent with OPIC purposes and policies;
surance of bid, performance, and advance payment letter of credit guaranties;
d, other exceptions on a case-by-case basis, including the encouragement of
ojects promising an extraordinarily significant developmental benefit to the
st country and projects with significant net U.S. trade benefits.

Our positions on the other major changes proposed by the Bill are as follows:

Board of directors.—We oppose allotting the OPIC Board Chairmanship to
e U.S. Trade Representative, preferring to leave it with the Director of IDCA.
e do not want to see OPIC's development objectives weakened, especially in the
ght of inconclusive evidence supporting the link between increased exports and
vestment.

Insurance authority.—We support granting OPIC authority to issue insurance
ainst the risk of civil strife. We do not support specific authority to insure
isting investment. The Act does not currently prohibit OPIC from insuring
ch investment. Such authority would not increase investment flows. In addi-
on, it is likely that those firms seeking to insure existing investments for the
ost part, would be firms who have found that their political risk situation has
tered. Thus, insuring existing investment would bear a disproportionate risk
r OPIC with a subsequent effect on its overall portfolio.

Increase in existing authority.—A review of projected new business and termi-
ations or amortization of existing insurance and guaranty coverage undertaken
OPIC shows that an increase in these authorities is unnecessary at this
me.

Ten percent coinsurance.—We support the elimination of this requirement for
nall business.

Eligible investor.—We support the proposed liberalization of the definition of
igible investor for OPIC contained in Section 108(c)(2). However, unless cov-
rage is specifically restricted to the U.S. equity participants in foreign entities
ade eligible by Section 108(c)(3), non-U.S. participants, who might hold up to
49 percent share of the entity, could be compensated for insured or guaranteed
sses.

Extension of authority.—As stated above, we support continuing OPIC's authority until September 30, 1985.

We recognize that there are many other changes to OPIC's current enabling legislation proposed by the Bill but, at this time, we are limiting our comments to the major points as outlined by Senator Javits when he introduced the Bill.

Thank you.

Senator SARBANES. Thank you.

What do you understand the significance to be of the change which apparently OPIC is seeking in the statute with respect to the phrase "the policy guidance of the Secretary of State?"

Mr. Llewellyn was very quick to note when I read that that it was foreign policy guidance. As I understand it, that is not actually what the statute currently says.

In any event, the proposal that is sought is to make it foreign policy guidance and also to make it explicit development policy guidance from IDCA. What do you understand all of that to be about?

Mr. HINTON. Mr. Chairman, I think there is some misunderstanding. I listened with interest to the remarks. I was not aware that OPIC itself had a position that was different from the Board position or the administration's position, as I understand it. As I recall, we have not discussed this point in the Board.

I do not think that the administration has changed its view that any agency engaging in activities, U.S. Government activities, in foreign countries takes foreign policy guidance, if you will, from the Secretary of State.

Now the Secretary of State obviously does not give guidance willy-nilly on just anything. It has to have a foreign policy implication as we see it. Policy is the word. As I said, we have not discussed it internally, so far as I can recall.

I personally view development policy as an aspect of foreign policy. The Secretary of State gives policy guidance to IDCA. IDCA gives development policy guidance to development agencies. But it is all a little bit of a semantic problem in "Never-Never Land." and I would not purport to have the ultimate answer on these questions.

Policy guidance is in the hands of the Secretary of State and so, he can respond to requests from agencies. Much of the guidance we give comes in response to queries or if you see a situation emerging where an agency, such as OPIC, wants to carry out an operation in a country where we have a concern. If something would provide the wrong signal in terms of our foreign relations, then we would volunteer the guidance, as we have, for example, in the case of Chile.

Senator SARBANES. Well, then, I take it that you see the proposed change as creating a problem. Is that correct?

Mr. HINTON. Well, I think it could create a problem. I understand that maybe there will not be those changes.

Certainly if there were a proposal to change the role of the Secretary of State, the answer is that I would see a problem. That is one reason I wanted to be up here today, to see if we could not nail this down.

Senator SARBANES. What is your view on the $1,000 ceiling?

Mr. HINTON. Well, sir, as a Board member, I guess I am bound by the Board decisions, so I have a view there and you have heard it.

As a member of the administration, we are not objecting.

On a personal basis, it has seemed to me that we could find ways to add flexibility short of a statutory ruling one way or another. You understand that I probably do not fully sympathize, but as a member of the executive and the Board, I am a great believer in leaving discretion and flexibility with the Board and the executive branch of this Government.

Senator **Sarbanes**. Do you think that in order to get the necessary flexibility of discretion it follows that any income ceiling altogether has to be eliminated?

Mr. **Hinton**. In my personal view, as distinct from my official capacities, I do not have that view. No, sir.

The State Department tends to the view in the internal discussion in the Government that with some additional criteria we could keep a $1,000 ceiling or some other ceiling. We would like to have some more flexibility. I think explicit coverage of the trade point would be helpful.

Senator **Sarbanes**. Here we have the flag providing, to some extent, protection and security for American business.

Now that raises a number of questions and you can look at it from a number of points of view. But from a point of view of the complications it may create for American foreign policy interests, is it the view of the Department of State that the OPIC activities, as they relate to the host countries, have been sufficiently responsive to foreign policy concerns or to the Department's voicing of those concerns in order to meet those kinds of problems? Or, do we have some difficulties that either exist, that have existed, or that might exist?

Mr. **Hinton**. No.

My view is that OPIC has been very responsive. We do have differences of view from time to time. But it seems to me that that is normal between rational people or rational agencies trying to do a job.

On the basic problem, Senator, it is American policy to give support, appropriate support, to the legitimate activities of American traders and investors. I would hope to continue that.

OPIC is a place where we go beyond our general view of investment to provide U.S. Government insurance guarantees.

The criteria for this always has been development. In my view, development normally has trade implications which are positive. We are adding in this thing a concept which probably always has been there. But it is nice and would be desirable to have it more explicit.

But as to differences between OPIC—we have not had those kinds of problems. There are no real conflicts that I am aware of. Of course, I have only been in my job for less than 6 months.

Senator **Sarbanes**. Do you understand the policy guidance authority which the Secretary of State has as enabling him, if he makes the judgment that it is an important matter of national interest, in effect to lay down what the position should be in terms of OPIC guarantees regarding foreign countries?

Mr. **Hinton**. I would say it is less to lay down what the position should be than a sort of veto. The Secretary of State is not operational in the insurance area. But if the Secretary of State were to say that country X for foreign policy reasons is a place you should not now be operating in, I would anticipate that there might be some discussion. If the Secretary took that position I would suspect that the OPIC president and Board would not argue, or would not proceed otherwise or try to proceed otherwise.

With the Case Act and the requirements there, as I read that language OPIC cannot conclude an agreement with a foreign country without the concurrence of the Department of State. Now we give that concurrence for a broad class of agreements, sort of model agreements, in advance. While I am not a lawyer, it seems to me that were OPIC suddenly to say that it wants to have an agreement with a particular country and for some reason if the Secretary of State did not think that was a good idea, concurrence could be withheld. I think that is right and proper. But it would be a matter of discussion. The Secretary of State is not likely to take an arbitrary position on an OPIC insurance contract. But I would not preclude it if, in his judgment or in the judgment of his advisers it seemed to be right.

I think it is a reserve power. I think this is what the Congress intended with the Case Act. It is not that the Secretary of State ought to be spending all day telling Bruce Llewellyn what to do or what not to do. It is a reserve power that has been used from time to time, but not very often.

Senator SARBANES. Thank you.

Senator Javits?

Senator JAVITS. Mr. Hinton, I don't find that your ideas vary from mine very much at all. But we do have to straighten out one concept, with respect to the foreign policy guidance of the Secretary of State. Would you distinguish that from the development policy of the United States, which apparently we have turned over to IDCA, which is a creation of the President?

I say this because I am on the Governmental Affairs Committee as well as this committee. I took my guidance from the reorganization plan under which IDCA was organized. There the President dealt with this matter in his letter to us of April 10, 1979. Let me read the appropriate sentence.

The President said:

> This reorganization creates a new agency to be known as IDCA. IDCA would become a focal point within the U.S. Government for economic matters affecting U.S. relations with developing countries.

Now here is the meaningful sentence:

> Subject to guidance concerning the foreign policy of the United States from the Secretary of State, the IDCA Director would be the principal international development adviser to the President and to the Secretary of State.

We thought we were doing what the President wanted. I will be very happy to be guided by the State Department view, with regards to the section of the legislation which stipulates that OPIC is required "to conduct its activities in consonance with the international trade, investment, financial, development and foreign policies of the United States."

Instead of that statement, which is now contained in the bill, we could go back to the original legislation and substitute the foreign policy guidance of the President of the United States as the role of IDCA is already determined by the legislation. We would simply make it clear that the foreign policy guidance from the Secretary of State continues.

Would you think that over, Mr. Hinton, in order to see whether that does not do what you want. I am inclined to do what you want.

Mr. HINTON. I think that is a very constructive suggestion and I appreciate it, Senator. I guess my preference would be to leave section 231 the way it was, adding the international trade. I think we would get into a sort of semantic swamp giving guidance of various kinds in different directions.

Senator JAVITS. I know, but we didn't do that.

Mr. HINTON. I understand that.

Senator JAVITS. The President did that.

Mr. HINTON. Yes; I know, and I support the President, Senator.

Senator JAVITS. In other words, he created IDCA and IDCA has a role, as you can see from this morning's testimony, and I am trying to respect that role.

So, we will leave that question to you and you will guide us.

Mr. HINTON. Thank you.

Senator JAVITS. As to the next matter, that of the $1,000 limit. I am a little leery about encasing us with a dollar figure. I would prefer to work out a definition for developing countries. For example, a definition of "friendly developing countries" is in the law now which may or may not be adequate for our purposes.

I hope you gentlemen will help us by thinking through that proposition. You talked about flexibility; which is what I am talking about. Give us a definition which is qualitative rather than quantitative. I think the $1,000 figure will get you into a trap of inflation, values of money, accuracy of figures, and so on. I would prefer not to have that.

The purpose, however, is only to deal with the developing countries, those countries that are eligible for aid from us, those countries eligible for aid from the World Bank, and so on.

I think the concept is very clear and let us try to put it into a qualitative definition.

Mr. HINTON. Fine, Senator. I think Mr. Ehrlich already has offered administration support. We would be very glad to work with him.

As you know, it is not as simple as it used to be because we have some very high income countries, as a result of oil exports, which seem to be very much developing countries in the social, economic, and institutional sense.

Senator JAVITS. Nigeria and Indonesia are classic examples of poor countries which happen to have huge oil incomes. They also have huge populations.

Mr. HINTON. They are clearly developing countries and friendly ones.

Senator JAVITS. You are dealing with a country of over 100 million people in Indonesia and Nigeria is a country of almost 100 million.

So, great, they are taking in big money, but they have a lot of people.

I think we can work that out. My purpose and intention is only to confine OPIC to developing countries in the classic definition of a developing country.

If my colleagues feel that a dollar figure is reassuring, we may have to go to that. But I would even submit to them that we had one experience with OPIC where we tied it up in knots with certain reinsurance requirements, and it did not do any good. It just didn't work.

Mr. HINTON. Yes; I remember.

Senator JAVITS. I don't blame anybody for that, but we should profit from that experience.

Thank you, Mr. Chairman.

Mr. Chairman, I am satisfied that we can satisfy the State Department and I will go out of my way to see that it is done.

Senator SARBANES. Mr. Hinton, you are the State Department's man who sits on the Board, is that correct?

Mr. HINTON. Yes, sir.

Senator SARBANES. I see that Mr. Llewellyn is still here.

Mr. HINTON. Oh, he is keeping track of me. I am a member of his Board and he wants to be sure that I am loyal. [General laughter.]

Senator SARBANES. It works the other way around, you know.

Mr. HINTON. Oh, I keep track of his foreign policy, too. [General laughter.]

Senator SARBANES. You know, OPIC had some controversy associated with it when it was before us previously. It seems to me that the OPIC people are going to have to consider very carefully this development purpose and this trade purpose and how they interrelate.

An agency to foster trade and which carries American Government guarantees and insurance for that purpose is one thing. An agency that is there to foster development assistance raises different questions.

Now you may be able to mesh them, but I think a lot of very careful thought has to be given to that. The Secretary of State should be able to preclude OPIC activity in areas where he has made the judgment that it would be contrary to our national interest. We should not find ourselves in support of an economic approach favoring investment overseas, for example, but being drawn into a specific situation creates very serious and very difficult foreign policy problems for the U.S. Government.

Senator JAVITS. Mr. Chairman, I think you are right. We should not be drawn into a situation where, because we have a guarantee, the United States is involved.

At the same time, the opportunity to constructively settle things with a country can be a great factor for peace and excellent relations. OPIC has had a unique success in the ability to settle claims in a way which is very helpful and constructive from the point of view of relations with an individual country.

Senator SARBANES. I think one of the written questions that I will submit to OPIC is whether they will expect their reception by host countries to be as positive if their goal or objective is a trade goal as perhaps it has been when their goal or objective is put forward as a development assistance goal or objective.

Mr. LLEWELLYN. May I make one observation, Mr. Chairman?

Senator SARBANES. Sure, you are still here, Mr. Llewellyn. We want to develop as full a record here as we can and this is an important matter.

Mr. HINTON. Mr. Chairman, may I make one observation first and then turn this over to Mr. Llewellyn? I am glad he is still here.

The mechanisms which OPIC has are investment insurance and loan guarantee mechanisms. Now we would go too far to say that just totally by definition, investment in the developing country is promoting the development objective, but it is pretty close to that. The country has a veto right. It is not going to permit an investment in it which it does not think will contribute to its economic development.

We have a right and the manager, the president of OPIC, is not going to approve projects that he does not think will make a contribution to that economy which, almost by definition, is development.

It has almost always seemed to me, as I said earlier, that when there is an investment, there is some trade element. I view this as being more explicit: that one should, particularly in the exceptions, take the trade into account, particularly where perhaps you may have a close decision. But it still has to be developmental, and by definition so.

I have been bothered, to be frank about it, that there was no change of function. I mean, there was a role and criteria, but there was not anything new that Bruce can do that, in my view, he really cannot do now. So I said to myself, you know, is there a way to give some content, specific new OPIC functions, that will respond to this trade? We have talked about some things internally, but we have not really found one.

Where I came out, and I may be quite mistaken about this, is this way. Congress, I hope, will be explicit about this. Trade is important and exports are important. To the extent that investments in developing countries promote trade, that is good. I am not sure that there is any specific action or measure that Bruce will take, that the OPIC Board will take, that is different as a result of this explicit recognition.

Of course, I may be totally wrong, but that is the way I look at it.

Mr. **Llewellyn**. Let me try to hit a few points for you.

We take policy guidance or foreign policy guidance from the State Department. If the State Department tells us not to go into a country, we don't go in.

Senator **Sarbanes**. You don't think that should change, do you?

Mr. **Llewellyn**. No. Nobody in OPIC, including my Board, is going to try to obviate a policy that already has been laid down by the State Department.

In regard to our reception in the host country, I think everybody should understand some things about how we operate.

First, before OPIC operates in a country our statute requires that there be a bilateral treaty between that country and the U.S. Government covering investment and OPIC's operations.

Second, the bilateral agreements require that every time there is an investment or a project going forward in the country for which OPIC assistance is requested, it has to have something called a foreign government approval in order for OPIC to assist it. The businessmen have to go to that government and say, here is what we want to do, and get that government to say yes, this is what we want and we think it is in our best interest. If they can't get the FGA, or foreign government approval, we are not going to issue the guaranties they seek. This is an absolute.

So do not think for a moment that OPIC is imposing or has the ability to impose a transfer of projects or enterprises into a country that the country does not want. It is not that way at all.

As for looking at the situation of trade and development, to be very candid, I can literally find some trade activities taking place in almost everything we do that is developmental. Almost every American investment that goes forward in a country usually has same component of it which is coming from America. Even in cases where things did not come from America, I can show you trade effects.

For example, we put a flour mill in Africa. A flour mill takes about 313,000 metric tons a year of American wheat. Even if the machinery and equipment did not come from America, it would do this. That is the situation if it is owned by an American investor.

If we don't get that particular flour mill and somebody from France or Germany or somewhere else puts it in, the wheat then flows from somewhere else.

We find also that when we put in these investments, there is a trade effect because usually spare parts, replacement equipment, upgrading of equipment, all the things that take place in an American investment, usually somehow or other come back to America.

I could really sit down, if you wish, without the legislation changing, without anything happening, and really show you how trade effects happen.

What we really are talking about in asking removal of the $1,000 per capita income limitation is the ability for us to have a more pervasive, if you wish, effect on all developing countries. As to the determination of what are developing countries, if I had my druthers, I would not like to have the Congress set down the specific parameters or rules. I would like to have it tell me to look to the multilateral development banks, look to the World Bank for the criteria they use. They are dealing with these developing countries all the time, and are well able to set the criteria.

In fact, my Board, in determining certain country evaluations in terms of developing countries, uses World Bank figures. They ask if it works. Then they go further to subdivisions, such as the African Development Bank or the Inter-American Development Bank.

These are all things that we use.

I want to disabuse anyone and everyone of the idea that OPIC is really looking for a franchising license to pack up and roam the world, free and unfettered from anyone telling us what to do and how to do it.

That is not the case.

Senator **Sarbanes**. Thank you.

Senator **Javits**. May I ask you to submit to us just one additional piece of information? OPIC is a member of the Berne Union.

Mr. **Llewellyn**. Yes, sir.

Senator **Javits**. The Berne Union is the world organization of agencies of different governments, which are similar to OPIC. I understand that there are quite a number of these programs participating in the Berne Union.

Mr. **Llewellyn**. Yes, sir. There are about 35 agencies from 26 countries.

Senator **Javits**. For the record, could we have a rundown on the organizations in the Berne Union to show what is happening in the world vis-a-vis ourselves?

Mr. **Llewellyn**. Yes, sir.

Senator **Javits**. Mr. Chairman, I ask unanimous consent that that be made a part of the record.

Senator **Sarbanes**. Yes. That would be very helpful.[1]

I constantly hear it asserted that we do less for our people than other countries do. I am not altogether satisfied that that is the question at the governmental level. I have some concern that the private sector is not as energetic as maybe are the private sectors in some other countries. If you can document that other countries are doing significantly more than what OPIC can make available to American business, that would be very helpful.

Mr. **Llewellyn**. We can put that information together for you.

Senator **Sarbanes**. Is it your view that that is the case? Do you regard OPIC as seriously falling short or being deficient in comparison with what other countries do?

Mr. **Llewellyn**. Let me give you just one example.

OPIC is the only government agency of the Berne Union that has to be self-sustaining. It is the only one.

Let me give you another example.

Senator **Sarbanes**. But as I looked at your figures, you are within all of your limits, so that does not seem to impose a constraint on you.

Mr. **Llewellyn**. I am just giving you that information as something with which we have to live.

Senator **Sarbanes**. I understand, but as a practical matter, what is the consequence of that, since you are within all of your limits?

Mr. **Llewellyn**. Rates. It is rates.

The practical matter is, and we will show you this in our breakdown, that there are other governmental organizations of other countries that are able to charge much lower rates, based upon the fact that the government actually is putting in a form of subsidy.

Senator **Sarbanes**. Are those investments being made in the same countries in which we are making ours?

Mr. **Llewellyn**. Yes, sir.

Senator **Sarbanes**. And with the same degree of risk?

Mr. **Llewellyn**. Yes, sir.

Senator **Sarbanes**. Would you regard an American investment, given the world situation, in a lot of countries as at a somewhat higher risk?

Mr. **Llewellyn**. Given the world situation, that an American investment is a somewhat higher risk? I would say basically no; I don't think people are looking at America any differently than they are at England or France.

Senator **Sarbanes**. As a No. 1 target?

Mr. **Llewellyn**. It would depend on the individual country. There are specific countries where I would say yes, we are an individual target, but, by the same token, that goes to my other premise, that I need to leaven the load. I don't need to be pushed into a category of having to carry the most volatile and the most deprived set of countries as my workload and move out of countries which are becoming more "affluent" and more able to enjoy a better standard of living and less volatile. That is one of the reasons I would like to have the ability to spread the amount of countries within the LDC category.

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[1] See p. 218.

Senator SARBANES. We understand that argument. If you are going to have an OPIC, I think that is a question of whether you work out a definition that keeps you properly focused on what is the agreed goal and objective. I think that is a somewhat separate question from these other questions.

Gentlemen, thank you very much.

We will reconvene tomorrow at 10 a.m. to continue this hearing.

[Whereupon, at 1:15 p.m., the committee adjourned, to reconvene at 10 a.m., June 12, 1980.]

OVERSEAS PRIVATE INVESTMENT CORPORATION

THURSDAY, JUNE 12, 1980

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met at 10:10 a.m. in room 4221, Dirksen Senate Office Building, Hon. Paul Sarbanes presiding.

Present: Senators Sarbanes, Tsongas, and Javits.

Senator SARBANES. The committee will come to order.

This is the second day of preliminary hearings on S. 2186, dealing with the Overseas Private Investment Corporation. Yesterday the committee received testimony from representatives of OPIC, from the International Development Cooperation Agency, and the Commerce and State Departments. Today we are scheduled to hear from two panels: First a panel representative of the business community, and second a panel that will include the academic community and labor community, in other words, from the private sector, in an effort to obtain as broad a range of views on this important matter as is possible.

We will also hear from Assistant Secretary Fred Bergsten of the Department of Treasury who was here yesterday to testify but was unable to remain because of a scheduling conflict; he will be heard after the first panel.

The first panel will be Richard Myers, Julian Madison, John Withers, William King, and Richard Brennan. Gentlemen, if you would take your places at the table we would appreciate it very much. I think if you could each identify yourselves for the benefit of the reporter, with the position you hold, that would be helpful. If you have worked out an order among yoursleves, we will follow that order; if not, I then suggest that we go across the table.

Mr. BRENNAN. Mr. Chairman, my name is Richard M. Brennan. I am director of international affairs for Union Carbide Corp., representing the U.S. Chamber of Commerce.

Mr. MYERS. I am Richard G. Myers, executive vice president and treasurer for Seaboard Allied Milling Corp., Kansas City, Mo.

Mr. WITHERS. I am John S. Withers, vice president and contracts manager of the H. B. Zachry Company International in San Antonio, Tex., a general contractor.

Mr. KING. I am William S. King. I am with the operations department of Occidental Petroleum Corp.

Mr. MADISON. I am Julian C. Madison, executive vice president of Madison and Madison International, a consulting firm.

Senator SARBANES. All right, Mr. Brennan, we will start with you. Go ahead, sir. I will be happy to hear from you.

STATEMENT OF RICHARD M. BRENNAN, DIRECTOR, INTERNATIONAL AFFAIRS, UNION CARBIDE CORP., ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

Mr. BRENNAN. Thank you. As I mentioned, I am appearing today on behalf of the U.S. Chamber of Commerce. Behind me is Oakley Johnson, the director of international investment policy for the U.S. Chamber.

At the outset, let me say the chamber favors and applauds S. 2186 for its recognition of international investment as one of the major positive contributors toward expanding U.S. exports from the United States to the developing countries.

The chamber supports passage of most of the major proposals contained in S. 2186 based on the belief that it would represent a useful step toward expanding U.S. exports and increasing U.S. employment levels. A detailed written statement, outlining the chamber's position on the major aspects of S. 2186, has been prepared and, with your permission, we would like to submit it as part of the record of these hearings.

Senator SARBANES. The full statement will be included in the record.

Mr. BRENNAN. Thank you. In summary form, our support is based on the following reasoning: OPIC provides insurance for investment in developing countries, thus removing some of the risk associated with such an investment. International investment pulls U.S. exports. The United States is currently experiencing a massive trade deficit. Eliminating the $1,000 per capita limitation will expand OPIC's scope of involvement. The subsequent increased investment in developing countries would lead to increased U.S. exports and employment, while at the some time advancing the primary developmental object of OPIC.

Rather than discuss the general or abstract beneficial effects of U.S. international investment that OPIC have had on U.S. exports and employment, I would like to augment the chamber's statement with some of the practical experiences of my own corporation. In so doing, I would also hope to support the reasoning we have outlined above.

In 1971, Union Carbide conducted a detailed study of the effects its international investment had on the U.S. economy. The study was updated in 1975. The overall study covers 24 years of international investment experience, from 1951 to 1974. In summary, the study clearly demonstrates the highly favorable pull effect our international investment has had on exports from the United States. Equally important are the favorable effects on U.S. employment and the U.S. balance of payments.

For example, the study demonstrates a direct, positive correlation between the trends of our affiliates' production and our exports from the United States. Export to our affiliates has consistently accounted for over 50 percent of our total exports.

Basically, the study provides specific, detailed, clear-cut evidence that the effect of overseas investment by Union Carbide resulted, over the longer term, in greater exports for the United States than would have occurred without the investment. Our investment in plants abroad pulls into the foreign market a broad range of U.S. exports, products whose overseas sales and use would not have occurred except

the fact we had a local production, distribution, and marketing
ablishment.

These are primarily intermediates to finished products not produced
the overseas plant. This is what we mean by the term "pull effect."

Many other corporations that are members of the U.S. Chamber
e had similar favorable experiences vis-a-vis their international
estments.

Next, let me turn to Union Carbide's experience with OPIC. We
e utilized the services provided by OPIC, or its predecessor orga-
ation, for the last 15 years. We would like to share with the com-
tee how OPIC fits into our decisionmaking process. Permit me
set the stage by stating that virtually all our international invest-
nts represent long-term commitments to supply a local market.
r initial focus is on the market growth potential in the local coun-
. If the longer term economic and commercial pros outweigh the
s, then we evaluate the future political climate of the country.
en there is a high probability of instability within the country,
will not go ahead with the investment. However, when there is
y an element of uncertainty as to the future sociopolitical stability
the country, then the availability of the OPIC insurance is often-
es one of the key factors in making the decision to go ahead with
investment.

We do not believe this decisionmaking process is unique. Undoubt-
y, many of the other corporations within the U.S. Chamber follow
imilar line of analysis in evaluating OPIC insurance.

n summary, Mr. Chairman, we would like to emphasize our firm
ief in the beneficial effects international investment has had and
continue to have on U.S. exports and employment. We also re-
ate the favorable impact OPIC has on the decisionmaking process
cerning investments in developing countries.

Finally, we would like to convey to you and your colleagues that
share your sense of urgency about our Nation's balance-of-trade
blems. There is every indication that in 1980 America will experi-
e its worst trade deficit in history. Many private sector organiza-
ns and branches of government are currently analyzing a variety of
ential measures that would enhance our exporting position.

The services provided by OPIC represent one of the few inter-
ionally acceptable measures that effectively enhance U.S. export
l employment. Modifications contained in S. 2186 have a real poten-
l to increase the value of OPIC. For example, elimination of the
000 per capita income criteria for determining a developing coun-
's eligibility would immediately open up significant new oppor-
ities to apply the services of OPIC.

Prompt passage of S. 2186 or similar legislation would be a very
itive indication to the business community that the Congress is
erested in expanding exports. It would be a sign of action that
uld demonstrate that export expansion has been given the high
ority it deserves.

Thank you, Mr. Chairman.

Mr. Brennan's prepared statement follows:]

PREPARED STATEMENT OF RICHARD M. BRENNAN

am Richard M. Brennan, director, International Affairs, Union Carbide Cor-
ation. I am also a member of the International Investment Subcommittee of
Chamber of Commerce of the United States, on whose behalf I am appear-

ing today. Accompanying me is Oakley Johnson, director of International Investment Policy for the U.S. Chamber.

The U.S. Chamber represents a membership of over 94,000 small, medium, and large businesses, more than 4,000 trade and professional associations and state and local chambers of commerce, and 44 American chambers of commerce abroad.

We are here to support the revised mandate for the Overseas Private Investment Corporation (OPIC) as contained in S. 2186.

The U.S. merchandise trade balance continues to worsen, with a deficit in the first quarter of 1980 of $12.2 billion, the largest experienced by the United States since the first quarter of 1978. At such a time, it is essential that all available resources of the private and public sectors be directed toward correcting this trend. Removing current restrictions on the effectiveness of OPIC programs will assist in expanding U.S. exports, thereby helping to reduce the size of the merchandise trade deficit and improve the competitive position of the United States in world markets.

ROLE OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC's role in encouraging U.S. private investment in developing countries is not new. Long before OPIC began operation in 1971, the United States encouraged private firms, through the availability of political risk insurance and other incentives, to invest abroad as a means of accelerating the economic development of host countries.

As government-to-government economic assistance has declined and the opportunities—and risks—for productive investment in many developing countries have increased, OPIC's ability to mobilize private capital, skills, and technology has become more important than ever. In fact, the ability of U.S. investors to become more deeply involved in the growing markets of Latin American, Africa, the Middle East, and Asia depends, in many cases, on the availability of OPIC services.

In 1979, OPIC insured or financed investments in 84 projects in 33 countries, of which 43 were in manufacturing, 7 in agribusiness, 22 in financing and other services, 5 in construction, 2 in tourism, and 5 in minerals, energy and forest products. Total investment in these projects was almost $900 million, of which the U.S. private investors' portion was 56 percent.

OPIC estimates that these projects generated over $330 million in new U.S. exports and will generate an additional follow-on procurement of almost $640 million over a 5-year period, for a net increase of over 16,000 man-years of U.S. employment.

In 1978, a 25-member mission visited each of the five member countries of the Association of Southeast Asian Nations (ASEAN). At the conclusion of the meetings with the heads of state and other officials in Indonesia, Malaysia, the Philippines, Singapore, and Thailand, it was determined that OPIC was of some assistance in fostering U.S. investment, but did not offer U.S. firms the nature and scope of services they needed to compete with Japanese and European businesses in this rapidly developing area of the world.

The mission, chaired by former Deputy Secretary of State Charles W. Robinson, agreed that the current U.S. policy of "neutrality," where foreign investment into or out of the United States is neither encouraged nor discouraged, is simply no longer realistic in this competitive region. It concluded that the OPIC charter must be broadened (1) to allow for the funding of pre-feasibility studies: (2) to allow greater flexibility in providing insurance and financing services; and (3) to reflect a new foreign policy objective that would positively encourage the transfer of needed capital, management and technology to the ASEAN countries.

The findings of this mission, and those of many like it to other parts of Asia and the developing world since, suggest that OPIC should and could be a much more effective vehicle for the promotion of our international trade and investment needs abroad.

IMPROVING OPIC'S EFFECTIVENESS

S. 2186 makes a number of important changes to OPIC's current congressional mandate that will improve its effectiveness.

When the last OPIC authorization passed the Congress in 1978, a number of highly restrictive amendments were adopted that reduced OPIC's flexibility and ited the attractiveness of its services to the business community. S. 2186 would nove a number of these operating constraints and redefine OPIC's mandate stating, in part, that its purpose is to encourage those investments which l directly or indirectly increase U.S. trade while maintaining OPIC's develop- ntal goals.

Development of export opportunities and maintaining market position abroad often contingent upon investment in foreign facilities and vice-versa. But too en, our government has chosen to separate the linkage between trade and estment by promoting exports without comparable policy support for export- erating investments. Revising OPIC's charter, by emphasizing the significant ort-pull effect of U.S. investments abroad, would represent a needed shift in icy which has all too often treated the trade effects of the investment function neutral and insignificant.

The bill would also provide needed clarification with respect to a provision in 1978 legislation which, in most cases, prohibited OPIC from operating in ntries where per capita income (in 1975 dollars) was more than $1,000. While Chamber supports efforts to give priority to projects which offer special elopment benefits for the poorest of developing countries, the 1978 amend- at reduced OPIC's flexibility in doing business in areas where its services are st needed. For example, the $1,000 limitation does not permit OPIC to operate rural communities in countries which, by this standard, are made ineligible ause of a relatively high GNP per capita for the country as a whole. For this son, we would support a modification in Section 101(m) by deleting the income ndard altogether.

ection 104(a) of the bill would permit OPIC to issue insurance for existing well as new investments. We understand that OPIC is currently not prohibited m extending such coverage, but its present authority does not permit coverage damage resulting from civil strife. Given recent worldwide trends, it is clear t civil strife is a political risk. OPIC coverage of this risk for new and exist- investments should be allowed.

During the last congressional review, OPIC was encouraged to emphasize fu- e development of energy resources in non-OPEC countries (Organization of roleum Exporting Countries). This would assist in the diversification of rldwide sources of energy, and it would assist those countries hardest hit OPEC price increases. S. 2186 would increase OPIC's insurance and guaranty hority to $10 billion and $1 billion, respectively, to provide the capacity to orb the size and volume of these, and other large-scale, projects anticipated r the next several years.

Another important feature of S. 2186 is the provision that would modify the sent definition of "eligible investor" by allowing OPIC to serve firms where . citizens have a significant interest in a U.S.-based enterprise and a majority trol in foreign corporations. With the increasing multinational character business ownership worldwide, this provision will help to maximize OPIC's ectives that can be met by firms previously excluded from eligibility.

Finally, in view of the fact that OPIC programs are carried out at no cost the taxpayer and that continued availability of its services are important to climate for investment, we support the extension of OPIC's mandate through al year 1985 as contained in S. 2186.

CONCLUSION

At a time when export promotion should be a national priority, the U.S. Cham- believes that it is vitally important for the United States to utilize every effec- e means available to this end. As part of this effort, we must support the role t could and should be performed by OPIC in fostering U.S. private investment oad—investment that both creates and expands new export opportunities l provides needed employment at home.

Passage of S. 2186 would support a more positive U.S. foreign investment icy while removing current constraints on OPIC's effectiveness. S. 2186 ad- sses the needs of the business community, the capital, technology and other elopmental needs of developing countries and the need to strengthen U.S. npetitiveness abroad.

Senator SARBANES. Thank you, sir. Mr. Myers?

STATEMENT OF RICHARD G. MYERS, EXECUTIVE VICE PRESIDENT AND TREASURER, SEABOARD ALLIED MILLING CORP.

Mr. MYERS. Mr. Chairman, I appreciate this opportunity to appear before the committee with respect to S. 2186. While I am not familiar with all the specific provisions of the bill, I am glad to see the realization expressed that OPIC has a decided effect on U.S. exports and provides the encouragement to U.S. companies to participate in economies of developing nations, so hopefully in the future they may become more viable societies.

Seaboard is the fifth-largest flour milling company in the United States in terms of production capacity, operating 10 flour mills in this country. However, there are smaller members of our industry, diversified into other industries, that are more substantial financially. Seaboard is largely a family owned and operated organization with only about 17 percent of its common stock held by the general public.

Were it not for the availability of OPIC programs, we would not be involved in five developing nations. As a medium-sized company, we have utilized OPIC services to research, finance, or protect our investment in Nigeria, Liberia, Sierra Leone in West Africa, and in Guyana and Ecuador in South America.

Our company has been in the flour business for more than 55 years, but only since 1965 has it established interest in the developing nations. Its initial investment was a purchase of half the equity position in a mill in Ecuador in 1965, and the second investment was in Sierra Leone in 1966. The success of this operation led to the establishment of a third overseas mill in Guyana in 1967, a fourth in Nigeria in 1972, and a fifth in Liberia in 1974. The operation of Seaboard Overseas, a wholly owned subsidiary of Seaboard Allied Milling Corp., is unique in that it creates new markets for U.S. wheat. The type of wheat purchased is selected with care because it affects the end product, and therefore must be compatible with the production methods and varieties of bread consumed in a given country. We are able to test U.S. wheat thoroughly in our Kansas City laboratories before shipment overseas, which we cannot do with wheats of other countries.

Typical of Seaboard's flour enterprises is its new flour mill at Sapele, Nigeria, financed in part with an OPIC direct loan of $2 million. The mill produces high-grade flour, enriched with minerals and vitamins to U.S. standards that enhances the nutritional value of bakery products, never before available in that area.

The Nigerian mill presently imports 5.5 million bushels of wheat annually from the United States. The capacity of the mill is now being doubled for the second time, thanks to an additional OPIC loan, so that annual imports of wheat from the United States after January 1, 1982, will approximate 11 million bushels.

Seaboard's other overseas mills presently grind another 6 million bushels of U.S. wheat. At today's prices, this quantity of wheat has a value of about $75 million f.o.b. New Orleans. In addition, we are importing nearly 2 million bushels of U.S. corn worth about $5.5 million, into Nigeria to aid the development of the local feedmixing industry.

In addition to providing a much needed quality staple, the Seaboard mills have created jobs and brought new skills and technology to the five host countries. Some 1,000 nationals are employed in our overseas operations and are learning modern production processes which constitute a future potential for their community. Inspired by the success that has been achieved with the help of OPIC, Seaboard is expanding into other food-producing areas.

On the site of the Nigeria mill, directly served by oceangoing cargo ships, the company has built facilities to service shrimp trawlers and to process the catch for the Nigerian-U.S. markets. Seaboard now operates 10 U.S.-manufactured trawlers that in addition to shrimp, are catching about 500 tons of fish monthly for the protein-short local market. We have also built a feed mill which is playing a major role to help develop poultry production in Nigeria for the meat-short market. This operation imports soybean meal and other additives from the United States. We anticipate construction of additional feed mills in Nigeria.

The basic concept of providing staples which mean higher nutritional standards and more varied diets for the people of these developing countries combines the economic and social motives which underlie the developmental process. A key factor in maintaining the balance between the two is the knowledge that incentive programs such as those offered by OPIC make it possible for us to invest in countries where political risks must be considered along with the economic factors which enter into business decisions.

In truth, we never would have ventured overseas without the protection of the Overseas Private Investment Corporation. Our small company is now an important factor in improving diets in five government programs for real assistance to the developing world. It is practical; it is altruistic; it benefits others while benefiting the United States, and Seaboard's activities have not cost the taxpayer a penny.

Of course, it has been good business for Seaboard; we have made profits, we have paid millions of dollars in U.S. income taxes; but there are other relations that are formed. In Sierra Leone, I have been fortunate to make important friends. I am honorary consul for the States of Missouri and Kansas. Kansas City is now a sister city to Freetown, the capital of Sierra Leone. The mayor of Kansas City has journeyed to Freetown and the Freetown mayor has come to Kansas City twice. Programs have been established through which the citizens of Kansas City have donated approximately 20 tons of medical equipment and 15 tons of textbooks, all badly needed in that nation.

The point is that businessmen can construct bridges from this country to other nations that help bind peoples together with respect for each other to promote peace.

These are the other benefits ceated by OPIC that do not show up on the balance sheets. I have come here from Kansas City especially to support a great organization doing a valuable job. Thank you.

Senator SARBANES. Mr. Myers, I want to thank you for a very thoughtful statement, with a breadth of vision on your part and on the part of your company that is reflected both in the statement and your activities. Thank you very much.

We will get back to questions of all the panel after we hear the statements. I think it is better to hear from each of you before we go to the questions.

Mr. Withers?

STATEMENT OF JOHN S. WITHERS, VICE PRESIDENT AND CONTRACTS MANAGER, H. B. ZACHRY CO. INTERNATIONAL, HOUSTON, TEX.

Mr. WITHERS. Mr. Chairman, I welcome this opportunity to present the views of our company in support of the extension of the Overseas Private Investment Corporation's operating authority and especially of the other proposals which will increase its effectiveness in supporting the U.S. business community in the highly competitive international marketplace.

I believe my views represent the views of the construction industry, of which my company is a part.

As an introduction to my statement, I would like to give a brief description of our company and what it has done.

The H. B. Zachry Co. was founded in 1924, and its first project was the construction of a small bridge in southwest Texas. Since then we have grown, and we have undertaken a wide variety of projects in Canada, South America, the South Pacific, the Caribbean, and throughout the United States.

The nature of our projects varies widely since our potential ranges from highways to major military facilities, from powerplants, chemical complexes, pipelines and airfields to commercial buildings and modular housing. Our international division has achieved a high level of experience in dealing with the people and governments of foreign countries, and we take pride in our ability to work in harmony with the governments of foreign countries on projects which will help to further their economic and social development.

As you know, the needs of the developing countries are enormous, particularly in the area of creating a sound infrastructure to support future growth, and few of them have the expertise to plan, design, and build such complex projects as powerplants, dams, roads, and other basic necessities. Thus, they must look to foreign companies for help. Their needs provide great opportunities for U.S. construction companies. However, just as the opportunities are great, so are the hazards. In addition, the competition from other industrialized nation contractors is fierce and growing more intense. Accordingly, we need all the help we can get from our Government to meet the challenges from the Japanese, British, the Germans, the French, Koreans, and others.

Part of this help that we must have is the Overseas Private Investment Corporation letter of credit guaranty insurance. This allows us to bid for projects which we would otherwise have to pass up, and provides protection against arbitrary and unilateral drawdown by a host government, for political reasons, of the letters of credit which we must provide.

The use of these unconditional letters of credit as bid guaranties and as performance, advance, payment, and retention guaranties is required by a growing number of countries, particularly those in the

iddle East. Such guaranties can be drawn upon by the beneficiary
wner without any evidence that the contractor had defaulted on
ontractual obligations. This means that the owner—in most cases
foreign government—may draw on such guaranties or cause them
be drawn upon arbitrarily without any real business justification.
his is a hazard which no prudent contractor should accept without
e counterguaranty which only OPIC provides.

Most export insurance programs operated by other industrialized
untries protect their contractors against this contingency and, as
result, the competition has enjoyed an advantage over U.S. contrac-
rs who have had to include large contingent sums in their bids as
lf-insurance. The OPIC program permits us to bid competitively
nd assures that we will be able to get insurance coverage in the event
e get the contract.

My company is currently bidding on a $60 million contract for
uilding a seawater canal in Saudi Arabia, a project which is impor-
nt to that nation's development and which will also strengthen our
mpany here at home. Of equal importance is the fact that this over-
as construction project, like all other overseas construction projects,
ill create jobs here in the United States and increases the export of
.S. equipment, materials, and services.

My personal knowledge of OPIC goes back a number of years.
uring my former affiliation with a New York City construction
mpany, we obtained political risk insurance for an airfield in
thiopia and for an all-weather highway in Botswana, linking that
untry to Zambia. The latter project was critical to Botswana's de-
lopment since it provided a means to move agricultural and other
rojects to new markets. It also had a direct impact on the United
tates because the job required a small armada of graders, rollers,
rapers, bulldozers, and trucks, all purchased in the United States.
should point out that if a U.S. company is successful in its bidding, it
nds to buy from U.S. sources and thus helps to build export which
ould otherwise be lost if the project is constructed by a foreign
mpany.

In the construction industry, we view the potential of the 1980's as
e which will grow steadily, particularly in the developing world. I
ould also point out once again that there will be fierce competition
d that there is considerable risk involved in overseas operations.

Thus, we would like to know that OPIC programs will be available
us as we plan for the future in a rapidly changing world. Finally,
would like to point out that the business community is willing to
ay for OPIC services and that this is one Government agency that
es not use public funds to support its operations.

In this regard I might say that the companies I have been associated
ith have paid considerable premiums and have never had a claim,
which we are very proud; but we do not regret paying the premium.

We urge you to consider the proposed extension of authority and
her provisions of S. 2186 which will broaden OPIC's usefulness to
e business community and strengthen the partnership that has been
ilt up between the public and private sectors over the years. Thank
ou.

Senator SARBANES. Thank you very much for your helpful state-
ent. Mr. King?

STATEMENT OF WILLIAM S. KING, LATIN AMERICAN OPERATIONS DEPARTMENT, OCCIDENTAL PETROLEUM CORP.

Mr. KING. Thank you. I am with the Latin American operations department of Occidental Petroleum at our international oil and gas headquarters in Bakersfield, Calif. Occidental is one of the larger U.S. independent oil companies with major oil and gas development operations in four countries outside of the United States; namely, the United Kingdom, Libya, Peru, and Bolivia. We have oil and gas exploration activities currently in progress or under study in 24 countries around the globe. Our company's coal and chemical divisions also have business dealings in some of these and still other countries. Needless to say, Oxy is interested in the purpose, scope, services, and objectives of the Overseas Private Investment Corporation.

Of the 24 countries in which we currently have some interest or activity in oil and gas exploration or development, 18 are on OPIC's list of countries in which political risk insurance, financial assistance, and other programs are available. Of these 18 countries, only 8 are shown to offer the full scope of coverages, with the programs in the remaining 10 countries being limited, restricted, or temporarily not available due to local circumstances. These limitations and restrictions are mostly due either to the country's relatively high per capita GNP or, in several South American countries, due to conflict with the terms of the Andean Pact treaties.

Occidental is fully aware of the political risk that goes along with foreign investment, particularly oil and gas investment. In the recent past, we have suffered the effects of unilateral government action against the company's commercial oil discoveries in Libya, Nigeria, and in Venezuela. In 1973, Libya unilaterally nationalized 51 percent of our Libyan properties. They subsequently reimbursed Oxy 51 percent of its net book value for the expropriated interest and Oxy still is active in the country on this and new projects. During 1975, Oxy surrendered its interests in a Nigerian offshore oilfield it had discovered after several unilateral changes of contract terms by the government made its development uneconomic. At the end of 1975, Venezuela nationalized Oxy's Lake Maricaibo condensate field discovery, and to date has failed to reimburse the company any part of its net investment as specified in the terms of the Venezuelan nationalization law.

There are four areas of major overseas investment by Oxy today, as I mentioned above: The United Kingdom North Sea area, Libya, the two Peruvian developments, one in the Amazon Jungle and the large secondary recovery project on the northwest coast, and in Bolivia where we are developing two large gas condensate fields. We do not have OPIC insurance coverage in any of the four countries. In the United Kingdom and Libya, no program exists. In Peru and Bolivia, the protection is not available because the countries are unable to cooperate with OPIC due to the restrictions dictated by the Andean Pact. We have applied for full coverage in both of these Andean countries. Perhaps some way to eventually qualify the program will be developed and we can be issued the requested insurance policies.

We are obviously going ahead with our investment in these four countries without OPIC help. The basic decision was, I guess, that the economic potential in each outweighed the political risk.

Part of our job at the international division of Oxy is to evaluate any area in the world for its potential development of oil and gas. We look at every area from three views:

One. It must, of course, have favorable geologic conditions, indicating the accumulation of oil or gas.

Two. It must have acceptable economic potential as determined from contract terms, tax structure, repatriation of profit provisions, and so forth, and it must have manageable physical factors such as water depth, weather, environment, distance to export markets, and so forth.

Three. It must have acceptable political risk.

Each of these factors has to be considered and evaluated before committing to a significant investment. We are willing to take the geological risk, we can evaluate and cope with the economic and physical risk, but we need help in assuming high political risk. A correlary of this thought is that, as the political risk increases, the size of the field to be developed must increase along with it. Therefore, if the political risk cannot be reduced or minimized, there are going to be oil deposits that will not be developed, and that is very unfortunate in this day of energy shortages.

To conclude, there are at least three areas where OPIC's insurance programs could be improved to assist international oil and gas development:

One. Allow for recovery of full value of expropriated properties, including the value of future income potential.

Two. Resolution of the subrogation problems with Andean Pact countries.

Three. Increase the current limit of coverage of $50 million per project and $100 million per country.

Thank you for allowing me to present these ideas.

Senator SARBANES. Thank you for your statement. Mr. Madison?

STATEMENT OF JULIAN C. MADISON, EXECUTIVE VICE PRESIDENT, MADISON & MADISON INTERNATIONAL, CLEVELAND, OHIO

Mr. MADISON. Thank you, Mr. Chairman.

Before reading my remarks I would like to introduce Mr. Everett Bell, who is in the audience. Mr. Bell is a member of our board of directors and also the general counsel of our firm and a CPA. He will help to keep us out of trouble with OPIC.

Senator SARBANES. He is an important fellow; we are pleased to have him here with you.

Mr. MADISON. My name is Julian C. Madison. I am a professional engineer and executive vice president of Madison & Madison International. The company which was founded by my brother Robert, an architect, and me in Cleveland has over 26 years experience in the practice of architecture, engineering, and planning. With a present staff of over 135, the firm has 8 offices located in Cleveland, Chicago, Gary, Milwaukee, Detroit, Raleigh, Philadelphia, and Atlanta.

Because of the multiethnicity of the staff, MMI is often referred to as a mini United Nations. People from the Eastern European countries of Russia, Hungary and Yugoslavia work harmoniously together with people from several countries of Western Europe: Africa, Israel, Asia, and the Caribbean area.

The diversity of the firm is indicated by the projects presently being executed. Among these are the following:

One. Jordan Dam recreational center in North Carolina.

Two. Interior design of all concessions at the new Atlanta airport.

Three. Seventeen miles of the Northeast corridor railroad project near Philadelphia.

Four. Environmental impact statement to study the effects resulting from the conversion of the Ohio Turnpike from a toll road to a free road.

Five. Participation in the massive pollution abatement program in Detroit.

Six. Design of an energy-efficient facility for the conversion of sewage sludge to electricity in Gary, Ind.

Seven. The deep tunnel flood control project in Chicago.

Eight. Several environmental and transportation projects in Milwaukee.

In 1977, MMI, in joint venture with a smaller and less experienced local firm was awarded a "'turnkey contract" to design and construct a sewage treatment plant in Scarborough, in the Republic of Trinidad and Tobago. This plant, which will have a treatment capacity of 4.4 million gallons per day, will provide tertiary treatment and will connect to an outflow effluent line that would carry the sewage 1 mile out and 5 feet under the bottom of the sea. The cost of the plant is approximately $13 million. Our engineers in the United States designed the plant. All of the equipment to be used in this plant, such as motors, pumps, aerators, blowers, et cetera, are being purchased from U.S. manufacturers and shipped to Tobago. The cost of said equipment approximates $5 million.

We have a staff of engineers on site in Tobago in charge of construction of this vitally needed high priority project. The design of this plant calls for the utilization of approximately 5,000 cubic yards of concrete. Inasmuch as there is no concrete batching plant on Tobago, we began to plan for the acquisition of our own plant. However, a local associate of ours expressed the opinion that the development of the Island of Tobago was being inhibited due to the fact that concrete production was done only by hand mixers, which is both time-consuming and more often than not inefficient.

Recognizing a business opportunity that would also satisfy a need, we began to explore the possibilities of purchasing and shipping a concrete batching plant to the Island of Tobago. At about the same time we became aware of the fact that the Overseas Private Investment Corporation [OPIC] had a new president and a new resolve. From the first meeting, President Llewellyn and his dedicated staff provided encouragement to us and invited us to formally apply for OPIC assistance, which we did. Less than 60 days after the initial meeting, during which time a feasibility study was conducted in Trinidad and Tobago, we had a letter of commitment from the Overseas Private Investment Corporation. The speed by which this was done is a testimony to the dedication and professionalism of loyal OPIC staff members such as Mrs. Margaret Herdeck, Messrs. Dennis Sheets, Bruce Ghrist, John Harris, and others.

The encouragement and support which we received from OPIC motivated us to return to Trinidad where we formed a corporation known as WESCON (Tobago) Ltd., one of whose purposes is to manufacture and sell ready-mix concrete. All of the equipment for this plant, except the ready-mix trucks, were purchased from U.S. manufacturers. There is a requirement that all large trucks that move on Trinidad and Tobago roads must be right-hand-drive. We were unable to find in the United States right-hand-drive trucks, or a company that could cost effectively convert a left-hand-drive ready-mix concrete truck to right-hand-drive. So, we were forced to purchase these trucks in England.

The basic desire of the Government of Trinidad and Tobago is to encourage foreign firms to participate in joint venture arrangements whereby local businessmen are involved in the ownership and management structure of the corporate entity.

Citizens of Trinidad and Tobago will participate with us in the ownership of WESCON. MMI will execute a management contract with WESCON to insure that the project is properly managed. Already the local stock subscription has been substantially oversubscribed to by almost 30 percent in Tobago. It is my belief that this has occurred because of the confidence that the people have in the project, MMI staff, and the Overseas Private Investment Corporation; a fitting tribute to its first project ever in the Republic of Trinidad and Tobago.

Notwithstanding the fact that the project is small by OPIC standards, it is my belief that the proportionate impact that our project will have on the Republic of Trinidad and Tobago may be of far greater magnitude on a per capita basis than many of the other projects that OPIC is participating in.

Among the goals of OPIC, as I understand them to be, are (1) to mobilize and facilitate investment in developing countries; (2) to increase trade; and (3) to contribute to the development of such countries.

Among the goals of MMI are (1) to expand its business activities to certain selected developing countries of which the Republic of Trinidad and Tobago is one; (2) to participate with local businessmen in the development of Trinidad and Tobago; (3) to promote an effective program of mutual technology transfer between MMI staff members and citizens of Trinidad and Tobago; (4) to utilize American-made products in our projects to the maximum extent feasible; (5) to promote good will and mutual respect through a people-to-people program based upon personal contact between MMI staff and local people; and (6) to make a fair profit.

Among the goals of the Republic of Trinidad and Tobago as they relate to foreign investment, as I understand them to be, are (1) to encourage the introduction of pioneer and/or basic industries into the country; (2) to promote local employment to the maximum extent feasible; (3) to promote technology transfer and training, at all levels, by the foreign investor; and (4) to promote the expansion of business activities in the private sector.

It is my considered opinion that all of these collective goals are being, or will be, achieved in this instance by the joint efforts of OPIC, MMI, the several ministries of the Government of Trinidad and

Tobago, and the Industrial Development Corp. of Trinidad and Tobago.

With the start of the plant in July 1980 the following will be achieved:

One: WESCON (Tobago) Ltd. will revolutionize concrete construction on the Island of Tobago by reducing the cost and accelerating the pace of construction.

Two: MMI will be able to drastically accelerate the construction of the high-priority sewage treatment plant which will service Scarborough, Tobago. MMI will also be more competitive with large European and Asian contractors, some of whom are supported by their governments.

Three: The high capacity American-made equipment will be able to provide concrete for other high-priority projects to be constructed.

Four: Many private projects delayed, and in some cases abandoned, for the construction of beach hotels, office buildings, housing, and industrial buildings have been resurrected due to the availability of quality ready-mix concrete. American-made equipment will undoubtedly be used in these projects.

MMI staff people in Trinidad and Tobago have become part of the community there. We are establishing a design office in Tobago to assist in the orderly and environmentally acceptable development of this beautiful island.

The name OPIC is now known by most of the business people there. It did take some time to make the distinction between OPIC and OPEC; however, that problem is no longer a problem in our business sphere there.

We have overcome many technical, financial, social, and legal business problems in our efforts to get established in Tobago.

OPIC has done its part extremely well, the Government of Trinidad and Tobago and its affiliate organizations have done their part, and now we shall proceed to do our part in not only running a successful business operation, but in winning new friends for ourselves and our country. Thank you.

Senator Sarbanes. Thank you, Mr. Madison, for your very helpful statement.

Senator Javits has been able to join us and I defer to him now for a statement and his questions.

Senator Javits. Mr. Chairman, the testimony has been very well presented giving the reasons why these companies have found OPIC necessary for their activity. There are hardly any more questions that I could ask.

I am interested in the testimony of Mr. Myers which adds the interests of agricultural exports to what is encouraged by OPIC. That, I think, is critical because agricultural exports are now considered to be one of our primary ways to buy foreign exchange for the raw materials which we have to buy abroad. In addition, the company which Mr. Myers speaks for is a small business.

Mr. Myers, did you define the size of the company in terms of qualifying it as a small business?

Mr. Myers. No, sir, I did not.

Senator Javits. Would you do that?

Mr. **Myers.** Yes. We have a net worth of about $45 million. We have been in business for about 55 years. We are the fifth largest in our industry in terms of production. But as I stated here, there are companies that produce far less than we do, that are larger financially because they are involved in other types of activities. We are just a family business, basically.

Senator **Javits.** How many people do you employ?

Mr. **Myers.** In the United States we employ probably 600 or 700 in the milling sectors.

Senator **Javits.** And you consider yourself a small business?

Mr. **Myers.** Yes; we do.

Senator **Javits.** Is that true of any of the other companies at the table? Yes, you are a minority small business.

The other question I would like to ask, realizing that one of the key things in the contracting business is a letter of credit for a performance bond which of course is unique by and large to the building industry. Leaving that aside, would you gentlemen consider political risk insurance as an element which you could not go into a country without, except of course, in the case of Occidential Petroleum, where I understand that is qualified by the potential of recovery, and the possibility of large recovery.

Of the three firms that testified, starting with you, Mr. Myers, would you have been able to undertake this venture if you did not have the political risk insurance?

Mr. **Myers.** No; we never would have dared to do it without it. As a matter of fact, OPIC helped us with their plan to take our first trip overseas, they rebated some of our cost of travel, they had that program in those days. We would not have gone without that, either.

Senator **Javits.** I see. Mr. Brennan, would you have gone in without it?

Mr. **Brennan.** No, sir. What we have done, as indicated in our statement, where there is a high level of political risk we would not go in at all; but when there is an element of uncertainty, then the OPIC insurance is very helpful in making a positive decision to invest.

Senator **Javits.** I note also that in your testimony you referred to a study by Union Carbide, "International Investment Benefits to the U.S. Economy."

Mr. **Brennan.** Yes, sir.

Senator **Javits.** It may be too extended a study to put in the record, but may we refer to it in the record and take such parts of it as we deem relevant, in consultation with the chairman?

Mr. **Brennan.** Yes, sir; we would be delighted.

Senator **Javits.** We do not in any way want to show a one-sided picture of the study.

Mr. **Brennan.** Certainly.

Sentaor **Sarbanes.** To refer to the study?

Senator **Javits.** To refer to it and include whatever the Chair feels appropriate.

We have one other member of the panel, Mr. Madison. You are the minority business. What about the political risk insurance as far as you are concerned?

Mr. **Madison.** We have it with OPIC, but as far as Trinidad is concerned, we were already there; but we do have it on this new project.

There are other countries that I would not go into without political risk insurance, defintiely not.

Senator JAVITS. Thank you very much.

Senator SARBANES. Gentlemen, I wanted to ask this question, and it was prompted by Mr. Withers' testimony about the fact that foreign governments are drawing arbitrarily on the guaranties without any real business justification. That really prompts this question.

Do you think OPIC should undertake to provide protection for American business in a situation where a disadvantageous circumstance from an investment point of view already exists and is known about?

To what extent should we undertake to accept a disadvantageous circumstance and protect against that, as opposed to giving you protection against a change in situation in which case you can say, "Well, these were not the terms on which we came in. We have really been badly dealt with here."

Mr. WITHERS. Mr. Chairman, I will try to answer that. First, I think I am correct in saying that OPIC carefully reviews any application for insurance which they may write, and I would assume that if they felt the risk was one they should not take, and that the contractor should not take, they probably would not write it.

Now, then, going to the other situation. When we undertake a contract in a country today, neither we nor OPIC can foresee what may happen 5 or 10 years from now. This is why we want the insurance. In many of these countries where I would think in the near term, maybe—2 or 3 years—I would not think that there was a hazard there. But as we all know from what has happened in the last year, that situation may change overnight. So, as I have stated in my statement, I believe this counterguarantee of the advance payment or performance guarantee is a vital necessity.

Furthermore, I think that it is a proper function of OPIC. It is not an insurance that we can buy in the commercial market, and I believe it is a vital function. In support of that, this ability to provide this insurance and our ability to get it makes it possible for American industry to take risks in these countries. It seems to me that OPIC's record proves that it has been a good economic risk that has been taken by OPIC. As I stated, in the political risk area I have known OPIC, or its predecessor, for 15 years. We have bought political risk insurance. I have been happy I had it every time.

We have not collected 1 dime, but OPIC has obtained valuable premiums and I believe I am correct in saying that their record proves that it has been an economically viable function.

Senator SARBANES. Does anyone else want to comment on that question?

Mr. KING. I might comment that you cannot predict what is going to happen. In the oil business often your coverage is not needed until after you are developed and on stream, so to speak. Everything is straightforward. While you are investing, you develop your field, you get on production and then sometimes a country decides they want to change the terms. Those are things you certainly cannot foresee. That is what insurance is for, to me.

Senator SARBANES. I accept that point. The question I am raising is, When you know a situation is not a good one, to what extent should

ı be provided the OPIC guarantees or insurance for protection,
ɜn though you know you are going into a very hazardous ar-
ıgement at that time, versus no protection against a future change
circumstances?

Mr. **Withers.** I can think, Mr. Chairman, of some countries I would
go into, no matter what insurance I had. I think we evaluate those
ks before we decide because, even though the insurance may protect
to some degree, we may still go bankrupt if the country goes com-
tely bad.

Mr. **Myers.** Mr. Chairman, if I could say something about that. I
ow there is an enormous amount of work going into these develop-
countries in putting together a corporation and a manufacturing
ility. The thought of going in and doing all that and have it come
naught is staggering, no matter whether you have insurance behind
ı or not.

As a matter of fact, even though you have insurance behind you, it
never really completely 100 percent adequate for what you are do-
; it is a help. The average businessman, going overseas into those
ntries that appear to be somewhat hazardous, is basically rather
id. The fact that you have OPIC behind you, I do not believe,
rps your decision as to what is a good, viable, safe type of thing.
would not go into any place if we did not have the feeling that it
s going to be successful. It feels wonderful to have OPIC standing
ind us. But to go into an overt hazardous thing is not attractive to
usinessman.

Mr. **Brennan.** I think we would agree with that, sir.

Senator **Sarbanes.** Mr. King, you suggest that OPIC's insurance
uld be changed in instances of expropriation to allow for recovery
full value of the expropriated property, including the value of
ure income potential; is that right?

Mr. **King.** Yes.

Senator **Sarbanes.** That is a pretty far-reaching proposition.

Mr. **King.** Yes. Of course, all of our ventures do not come out success-
ly from the economic standpoint. We have unsuccessful ventures;
drill dry holes. We spend a lot of money and do not come up with
ything. So, the successful ventures we do go into have to make up
that, or we are out of business.

Senator **Sarbanes.** I understand that is a matter of your business
culation, but to what extent should OPIC undertake to underwrite
t?

Mr. **King.** If our properties are nationalized, we like to be compen-
ed for the full value of our property.

Senator **Sarbanes.** Including this future income potential.

Mr. **King.** That is correct.

Senator **Sarbanes.** Mr. Brennan, what countries in particular does
$1.000 limit preclude you from going into? I ask that of all the
nel. Does the $1,000 limit preclude the members of the panel from
ing into countries they would like to go into, and if so, which
ntries?

Mr. **Brennan.** Well, Brazil is one that is precluded. I do not know
per capita income of the countries that well, sir, to respond to you.
hink what we are suggesting is that that type of limit, if we are

really trying to enhance our export position, is such that we should eliminate it and permit us to go into any of the developing countries.

[The following material was subsequently supplied for the record:]

Union Carbide, Corp.,
New York, N.Y., June 25, 1980.

Hon. Paul S. Sarbanes,
U.S. Senate,
Washington, D.C.

Dear Senator Sarbanes: I testified before your committee on June 12, 1980 concerning S. 2186, the Overseas Private Investment Corporation Act. During the course of the hearings you asked the panelists a question along the following lines—"Does the $1,000 limit preclude the members of the panel from going into countries they would like to go into and, if so, which countries?"

My initial response was quite limited and based on my corporate background. I should have responded as well on behalf of the member companies of the Chamber of Commerce of the United States. On this latter basis, the response would have been: All developing countries that are currently precluded by the $1,000 limit undoubtedly have resulted in some Chamber member companies not investing in those countries. With a base of 96,000 member companies this would appear to be a reasonable response.

As indicated in my remarks before your committee, we in the Chamber are concerned with a self-imposed arbitrary (perforce) dollar limitation governing developing countries' eligibility for OPIC coverage. There are roughly 125 developing countries in the world today. Of this total, two types of developing nations appear to be dominating the decision making concerning OPIC. On the one hand there are about a half dozen nations on the brink of "graduation" from developing to developed status. On the other hand there are those limited number of nations whose per capita income averages have been skewed by new found, highly escalated oil revenues. Yet both of these categories of nations are at this point in time by many other measures still very much developing countries. Many of them also contain a certain element of political instability. And yet ironically these are the very nations that probably offer the greatest potential for significant foreign investment and the attendant pull of U.S. exports.

Consequently the Chamber is puzzled as to the need for self-imposed limitations on OPIC when the downside risks seem so relatively minor (i.e. OPIC's past successes) and are far outweighed by the high potential benefits to our balance of trade. Surely the U.S. needs every available tool to improve its exporting situation. We believe OPIC can make an even larger contribution towards improving our exports. At the same time it can well serve its primary developmental role under the guidelines established by Congress. That is, by giving preference to the least developed countries, but at the same time broaden the scope of its coverage without any dollar limitations on eligibility.

We appreciate your interest and the opportunity to express our views on this subject. If possible, we would like to have this letter as part of the record of these hearings on S. 2186.

Sincerely,

R. M. Brennan.

Mr. Withers. I would think, Mr. Chairman, that this would include most of the countries of the Middle East. Again, I feel that the development objective is very important because when we go to a country with over $1,000 per capita project, we are not going to bring back dollars that the United States has sent over; we are bringing back dollars that have never been here before. I think that is very important.

Senator Sarbanes. Mr. King?

Mr. King. I have no comment except to reiterate what Mr. Withers said, that in the Middle East countries there can be quite high uncertainty there in doing business.

Senator Sarbanes. Do you see this program as a development assistance program, or as a trade promotion program?

Mr. King. I suppose it has elements of both.

Senator SARBANES. If it has significant trade elements but does not have a development assistance element, should we carry forward with it?

Mr. KING. I cannot say.

Senator SARBANES. Well, it goes to the whole purpose of OPIC. We have to have some way to develop some rationale for this activity here.

You cited the United Kingdom in your statement. Do you think OPIC ought to provide you guarantees and insurance for activities in the United Kingdom?

Mr. KING. I would not say so, no.

Senator SARBANES. Why not?

Mr. KING. Well, the risk is not there in that example.

Senator SARBANES. Mr. Madison, does the $1,000 limit affect you?

Mr. MADISON. Not as yet. I would like to make a comment in reference to your question, sir, about whether or not there is a trade and development assistance aspect of the program.

Most of the countries that I have either visited or been involved in are interested in trade, but they also are primarily interested in development because most of them are underdeveloped countries; they need technical assistance. What they are really looking for is a package. They want a firm that has a sensitivity to the needs of the country to come in there and work with the people and to provide programs that will assist a country in being able to get on its feet, so to speak. I do not really know of many of the countries that I am dealing with—I do not want to say I am dealing with, I am actively involved with. I traveled widely throughout all of West Africa and the Caribbean; I have been there on business.

Very few of them have the capability of trading in the reverse direction, and that is, trade to the United States. So, it is basically a one-way situation in which we are sending items and products in that direction. The governments resist this not so much because they are opposed to the receipt of goods and services, but because of the balance-of-payments that they suffer from, plus the fact that there is severe competition from the countries that these gentlemen previously alluded to; namely, the Japanese, the Germans, who are also trying to trade with them.

Any organization that can go to these countries and say, "Look, we will not only sell you goods, but we are also going to work with you in the development of your country. We are also going to assist your people in becoming technically capable to participate in a technological society," these are the companies that, I believe, would be most successful. This is, I think, one of the reasons why we have met with a tremendous amount of success and are being invited by many other countries to come to work with the people, particularly in the West Indies, because of the fact that we have tried to express our sensitivity, that it is more than just selling them goods. I have seen American companies come to some of these countries saying, "We are going to sell you this and sell you that," but people resist it and say, "Well, we can get that from the Japanese or the Koreans. What else can you offer that would enable us to grow and will enable our people to develop." I think this is very important.

I might just mention one little incident which we feel very proud of. Tobago has a population of 42,000 people. The young people there are very, very studious but they have almost no engineers. So, we have set up an Engineers' Career Club in one of the high schools. This is an activity we thought should be done. We have done that in several cities in the United States, inner cities. It has met with such a tremendously positive response from the parents until the whole government is excited about it. They want to set it up on a systemwide basis throughout the country. That is the kind of thing we think is important for American business to get involved in.

What I am really saying in finality is, I do feel that both activities are very, very vital because other countries in the world can provide trade into the countries, but we have to give them more than just goods and services. We can get the goods and services in there, but you have to have these other facets also, I believe.

Senator SARBANES. Senator Javits?

Senator JAVITS. There is a new dimension to be added to the OPIC, and that is the concern for trade. What I wish to make very clear, as author of the bill, is that this is not designed in any way to depreciate from, or change OPIC's purpose. OPIC's purpose is a developmental one. The only reason for adding this other dimension is that the United States now has a new interest in foreign trade. Therefore, if without changing OPIC fundamentally we can include an additional factor or benefit for our country, to wit, when looking at a development proposition, also look at its trade implications and take those into consideration, that is my purpose. It is not to change OPIC from a development encouraging agency, or development producing, from the private sector. It will cost the Federal Government nothing. That is critical in my thinking.

There is an analogy in the fact that I am a big, passionate devotee of private pension because it takes the strain off the social security system. Similarly, this takes the strain off Government aid. That was my purpose to begin with because Government aid is inadequate.

So, I would welcome anything that you gentlemen would like to tell us by way of comments which, of course, also includes the matter of energy independence.

It is, I believe, quite authoritatively felt that about half the oil to be found in the world is likely to be found in these developing countries. That is why there is a big World Bank program and that is why I hope there will be some benefit from OPIC.

I repeat again, it is not my purpose to change OPIC's fundamental business, which is to aid development, but only to add an additional string to its bow for its consideration, in view of the need of the United States, which is to buck up our exports.

Just to take an example, as I understand it, the Eximbank was offered this letter of credit scheme, and they would not handle it. The banks have difficulty with it because of the problem of charging it against their reserves. So, OPIC was the logical point.

Our special trade representative took OPIC with him when he went to Egypt, where we are anxious to stimulated business activity. In the negotiations with the People's Republic of China, OPIC was a factor because of its ability to sponsor useful enterprises.

Is there any comment?

Mr. WITHERS. Yes, Senator. I would like to say that if we can work successfully in the countries which have a product in excess of $1,000, this is going to make it possible for us to work more economically in the less developed countries. I do not feel that by adding this secondary objective to the charter of OPIC that you are detracting from the first objective of development whatsoever. In fact, I think you are increasing it.

Mr. **Brennan**. Senator, I would like to comment, if I might. I think we would agree with you that the primary purpose of OPIC is developmental. I listened to the hearings yesterday and I think there are some semantical problems, as Mr. Hinton pointed out. From our point of view, I think we would say that if we look at the bill, it is a recognition of a phenomenon of interrelationships between investment and trade. The Carbide study demonstrates that; the Business International study has demonstrated that. OPIC's actual experience has demonstrated that as we invest it pulls exports from the United States. I think almost all of the people here this morning have also demonstrated that.

I think what we are saying is that in an interest to help our trade deficit, it would be useful to eliminate the $1,000 per capita income and therefore, as Mr. Llewellyn said, broaden the scope of OPIC.

Senator **Javits**. Thank you very much.

Senator **Sarbanes**. Gentlemen, thank you. You have been a very helpful panel. We appreciate the time and effort that has obviously gone into your statements and also your appearance here this morning.

If the next panel, Mr. Goodfellow, Mr. Hawkins, and Mr. Denison would come forward. I think we are prepared to proceed with the panel. If you would identify yourselves, gentlemen, for the benefit of the reporter.

Mr. **Goodfellow**. Yes. My name is William Goodfellow; I am with the Center for International Policy.

Mr. **Hawkins**. My name is Robert Hawkins; I am professor of economics at the Graduate School of Business at New York University.

Mr. **Denison**. I am Ray Denison, director of legislation for the AFL-CIO, and I am accompanied by Elizabeth Jager of our research department.

Senator **Sarbanes**. We are pleased to have you all here. We will go right straight across the panel. Mr. Goodfellow, please go ahead.

STATEMENT OF WILLIAM GOODFELLOW, DEPUTY DIRECTOR, CENTER FOR INTERNATIONAL POLICY, WASHINGTON, D.C.

Mr. Goodfellow. Thank you again for inviting me to share some of the research we have done on the Overseas Private Investment Corporation.

I have long been interested in the Overseas Private Investment Corporation. Three years ago I directed a detailed study of OPIC, and I would like to ask that parts of the study, published in September 1977, be included in the record of the hearings. The study, entitled, "OPIC: Insuring the Status Quo," remains relevant, for the OPIC program and its primary beneficiaries have changed very little, in spite of the often-announced changes in OPIC's primary mission.

Before I discuss the bill before this committee, I would like to make a few points about OPIC's operations during fiscal years 1978 and 1979.

OPIC has always benefited the very largest U.S. multinational corporations. During fiscal years 1978 and 1979, 87 percent of OPIC's new insurance coverage was issued to Fortune 1000-sized companies.

The 1978 OPIC legislation required that OPIC make a special effort to facilitate foreign investments by small businesses. OPIC's management has taken steps to increase small business participation in their various programs, for which they deserve credit. However, I think their success has been overstated.

OPIC has reported with pride that for both fiscal years 1978 and 1979, over 30 percent of its insurance by project went to small businesses. Two points should be emphasized. First, a small business is defined by OPIC as a non-Fortune 1000-sized business. Such an enterprise may still have annual sales in excess of $110 million; therefore, the term small business is misleading.

Furthermore, OPIC refers to the percentage of projects involving small businesses. If the comparison is based on the dollar amount of insured investments made by small businesses, which more accurately reflect the distribution of OPIC's portfolio, only 13 percent was issued to non-Fortune 1000-sized companies.

I would suggest that future congressional guidelines on small business participation more carefully define "small." If targets for small business participation are included in OPIC's enabling legislation, the targets should be set in terms of dollar amounts of insurance issued, rather than in terms of the number of projects for which insurance was issued.

In our 1977 report we noted that 63.2 percent of insurance issued during fiscal years 1974, 1975, and 1976 was concentrated in just seven countries. In spite of assurances by then acting president Rutherford Poats OPIC was making efforts to reduce the overall concentration of its insurance, the same degree of concentration exists today. During fiscal years 1978 and 1979, 60.6 percent of OPIC's new coverage was issued in seven countries: Panama, Saudi Arabia, Israel, South Korea. Brazil, Egypt, and El Salvador.

Now I would like to turn to the legislation before this committee, S. 2186. The legislation proposes a number of changes in the OPIC program, some technical, some cosmetic, and three that I consider significant and would like to discuss in some detail.

Under the category of cosmetic changes, I would list the proposal to redefine OPIC's primary mission. Since its inception, OPIC's raison d'etre has been to promote development in the Third World. As foreign aid has grown increasingly unpopular in the United States, it is understandable that OPIC was reluctant to wear the "foreign aid" label. Furthermore, the existence of political risk insurance tends to encourage U.S. corporations to move their facilities abroad, and consequently OPIC has long been opposed by U.S. labor unions. Therefore, redefining OPIC's primary mission as promoting U.S. exports, and thus creating more U.S. jobs, might prove beneficial in selling OPIC to Congress. It is easier to vote for increased exports than for either foreign aid or runaway shops. My point is, however, that the program itself remains unchanged.

Similarly, I would oppose the provision to remove OPIC from IDCA oversight. There is far too little coordination in our foreign assistance program, and unless OPIC were merged with the Export-Import Bank, whose primary mission is to promote exports, OPIC's programs should be evaluated as a part of the overall U.S. effort to promote economic development in the Third World.

In 1978, Congress attempted to limit OPIC's operations in countries where per capita GNP was $1,000 or greater. The new legislation would remove that limitation, almost certainly insuring a shift of OPIC's activities to middle-income developing countries. OPIC's developmental impact would be diminished, however, since in these nations poverty is primarily a function of inequitable distribution of income, rather than being a lack of investment.

Senator Javits, in introducing S. 2186 last December 20, pointed out that the $1,000 per capita limitation precluded certain OPIC operations in Brazil, despite the fact that per capita income in the northeast of Brazil is among the lowest in the hemisphere.

The fact remains, however, that Brazil has received more commercial bank loans and more foreign investment than any other country in the Third World. In addition, the United States has provided over $3 billion in direct bilateral aid to Brazil since 1946, and only India has received more multilateral aid. Brazil, like many other middle-income countries, has the capital; what is needed is a rather far-reaching restructuring of society, and there is nothing to suggest that OPIC could contribute to such an undertaking.

The new legislation would also authorize OPIC to extend insurance coverage to existing investments. The implications of a provision are enormous. The benefits, however, would seem to accrue exclusively to OPIC's corporate customers. There is no requirement that a new insurance policy for an existing investment promote either host-country development or U.S. exports. In fact, even OPIC's management has backed away from this provision, for apparently they too realize it is impossible to justify.

Finally, the new legislation proposes giving OPIC the authority to issue insurance against civil strife, to supplement existing coverage against war, revolution, and insurrection. While this new coverage will obviously make OPIC's policies even more attractive to its corporate customers, it almost certainly will increase the number of claims brought against OPIC, though it will not increase OPIC's total liability. It is my understanding that civil strife can include everything from politically motivated arson to small-scale street riots. Every OPIC-insured company could become a target for even a single terrorist wanting to get even with the U.S. Government.

In conclusion, I think the legislation before the committee today moves OPIC in the wrong direction. Rather than dramatically increasing the scope of OPIC's operations, I think the committee should be moving to phase out the program and transferring its useful functions to other agencies.

Certainly, the Export-Import Bank is better equipped to promote U.S. exports. If that is OPIC's mission, then it ought to be part of Eximbank. On the other hand, if OPIC's primary mission is development, then it ought to be more closely integrated into AID's "new directions" development program. At present there is little or no coordination betwen AID and OPIC.

Much of the ambiguity concerning OPIC's mission is the result of the necessity to disguise OPIC's real mission. From its inception, OPIC has been a U.S. Government-sponsored subsidy to multinational corporations who have been its primary beneficiaries. In some instances, OPIC-insured and financed projects have had a positive impact on development in the Third World. However, I would suggest that OPIC's liabilities, in particular its negative impact on domestic employment and the identity of interest OPIC forges between the U.S. Government and U.S. multinational corporations, greatly outweigh its few benefits. Thank you.

Senator SARBANES. Thank you very much, Mr. Goodfellow. The study which you referred to will be included in the record. We appreciate the submission of that study to the committee for purposes of its deliberations here.

[Mr. Goodfellow's prepared statement and OPIC study follow:]

PREPARED STATEMENT OF WILLIAM C. GOODFELLOW

I would like to thank the Foreign Relations Committee and Senator Church for the opportunity to share with you some research I and my colleagues at the Center for International Policy have done on the Overseas Private Investment Corporation (OPIC).

The Center for International Policy is a nonprofit research and educational organization concerned with U.S. foreign policy toward the Third World and its impact on human rights and needs. The Center was established five years ago and is a project of the New York-based Fund for Peace.

I have long been interested in the Overseas Private Investment Corporation. Three years ago I directed a detailed study of OPIC, and I would like to ask that parts of that study, published in September 1977, be included in the record of the hearing. Our 1977 study, entitled "OPIC: Insuring the Status Quo," remains relevant, for the OPIC program and its primary beneficiaries have changed very little in spite of often-announced changes in OPIC's primary mission.

Before I discuss the bill before this committee, I would like to make a few points about OPIC's operations during fiscal years 1978 and 1979.

OPIC has always benefited the very largest U.S. multinational corporations. During fiscal years 1978 and 1979, 87 percent of OPIC's new insurance coverage was issued to Fortune 1000-sized companies.

The 1978 OPIC legislation required that OPIC make a special effort to facilitate foreign investments by small businesses. OPIC's management has taken steps to increase small business participation in their various programs, for which they deserve credit. However, I think the success of their efforts has been overstated.

OPIC has reported with pride that for both fiscal years 1978 and 1979 over 30 percent of its insurance by project went to small businesses. Two points should be emphasized. First, a "small business" is defined by OPIC as a non-Fortune-1000-sized business. Such an enterprise may still have annual sales in excess of $110 million; therefore, the term "small business" is misleading.

Furthermore, OPIC refers to the percentage of projects involving small businesses. If the comparison is based on the dollar amount of insured investments made by small businesses, which more accurately reflects the distribution of OPIC's portfolio, only 13 percent was issued to non-Fortune-1000-sized companies.

I would suggest that future congressional guidelines on small business participation more carefully define "small." If targets for small business participation are included in OPIC's enabling legislation, the targets should be set in terms of the dollar amounts of insurance issued, rather than in terms of the number of projects for which insurance was issued.

COUNTRY CONCENTRATION OF INSURANCE

In our 1977 report we noted that 63.2 percent of insurance issued during fiscal years 1974, 1975 and 1976 was concentrated in just seven countries. In spite of assurances by then acting president Rutherford Poats that OPIC was making efforts to reduce the overall concentration of its insurance, the same degree of concentration exists today. During fiscal years 1978 and 1979, 60.6 percent of new coverage was issued in seven countries: Panama, Saudi Arabia, Israel, South Korea, Brazil, Egypt and El Salvador.

Now I would like to turn to the legislation before this committee, S. 2186. The legislation proposes a number of changes in the OPIC program, some technical, some cosmetic, and three that I consider significant and would like to discuss in some detail.

Under the category of cosmetic changes, I would list the proposal to redefine OPIC's primary mission. Since its inception, OPIC's raison d'être has been to promote development in the Third World. As foreign aid has grown increasingly unpopular in the United States, it is understandable that OPIC was reluctant to wear the "foreign aid" label. Furthermore, the existence of political risk insurance tends to encourage U.S. corporations to move their facilities abroad, and consequently OPIC has long been opposed by U.S. labor unions. Therefore, redefining OPIC's primary mission as promoting U.S. exports (and thus creating more U.S. jobs) might prove beneficial in selling OPIC to Congress. It's easier to vote for increased exports than for either foreign aid or runaway shops. My point is, however, that the program itself remains unchanged, a fact confirmed by OPIC's own management.

Similarly, I would oppose the provision to remove OPIC from ICDA oversight. There is far too little coordination in our foreign assistance program, and unless OPIC were merged with the Export-Import Bank (whose primary mission is to promote exports), OPIC's programs should be evaluated as a part of the overall U.S. effort to promote economic development in the Third World.

In 1978 Congress attempted to limit OPIC's operations in countries with per capita GNP's of a thousand dollars or greater. The new legislation would remove that limitation, almost certainly insuring a shift of OPIC's activities to middle-income developing countries. OPIC's developmental impact would be diminished, however, since in these nations poverty is primarily a function of inequitable distribution of income rather than lack of investment. Senator Javits, in introducing S. 2186 last December 20, pointed out that the one-thousand-dollar per capita limitation precluded certain OPIC operations in Brazil, despite the fact that the per capita income in the northeast of Brazil is among the lowest in the hemisphere. The fact remains, however, that Brazil has received more commercial bank loans and more foreign investment than any other country in the Third World. In addition, the United States has provided over $3 billion in direct bilateral aid to Brazil since 1946, and only India has received more multilateral aid. Brazil, like many other middle-income countries, has the capital; what is needed is a rather far-reaching restructuring of society, and there is nothing to suggest that OPIC could contribute to such an undertaking.

The new legislation would also authorize OPIC to extend insurance coverage to existing investments. The implications of such a provision are enormous. The benefits, however, would seem to accrue exclusively to OPIC's corporate customers. There is no requirement that a new insurance policy for an existing investment promote either host-country development or U.S. exports. In fact, even OPIC's management has backed away from this provision, for apparently they too realize it is impossible to justify.

Finally, the new legislation proposes giving OPIC the authority to issue insurance against civil strife, to supplement existing coverage against war, revolution and insurrection. While this new coverage will obviously make OPIC's policies even more attractive to its corporate customers, it almost certainly will increase the number of claims brought against OPIC, although it will not increase OPIC's total liability. It is my understanding that civil strife can include everything from politically motivated arson to small-scale street riots. Every OPIC-insured company could become a target for even a single terrorist wanting to get even with the U.S. Government.

CONCLUSION

In conclusion, I think the legislation before the committee today moves OPIC in the wrong direction. Rather than dramatically increasing the scope of OPIC's operations, I think the committee should be moving to phase out the program and transferring its useful functions to other agencies.

Certainly the Export-Import Bank is better equipped to promote U.S. exports. If that is OPIC's mission, then it ought to be part of the Eximbank. On the other hand, if OPIC's primary mission is development, then it ought to be more closely integrated into AID's "new directions" development program. At present there is little or no coordination between AID and OPIC.

Much of the ambiguity concerning OPIC's mission is the result of the necessity to disguise OPIC's real mission. From its inception, OPIC has been a U.S. Government-sponsored subsidy to multinational corporations, who have been its primary beneficiaries. In some instances OPIC-insured-and-financed projects have had a positive impact on development in the Third World. However, I would suggest that OPIC's liabilities, in particular its negative impact on domestic employment and the identity of interest OPIC forges between the U.S. Government and U.S. multinational corporations, greatly outweigh its few benefits.

TABLE 1.—LEADING RECIPIENTS OF OPIC INSURANCE, FISCAL YEARS 1978-79

Company	Insured investment	Fortune-500 ranking
1. Chase Manhattan (with Northville Terminal and Chicago Bridge)	$47,531,000	(1)3
2. Fluor Engineers	20,475,000	(2)
3. International Paper	18,000,000	66
Union Camp		226
4. Multi-bank financing	8,604,000	
5. Agrico	7,740,000	182
6. Union Carbide	7,145,482	25
7. General Electric	6,412,276	9
8. Motorola	5,850,000	125
9. Hooker Chemical (Occidental Petroleum)	5,760,000	21
10. Gulf Oil	4,977,000	7

[1] Among banks.

[2] No listing, but would rank around 200.

Source: Statement of J. Bruce Llewellyn, president, Overseas Private Investment Corp., before the Subcommittee on International Economic Policy and Trade, House of Representatives, July 17, 1979.

TABLE 2.—*Country concentration of new insurance, fis[illegible] years 1978–79*

Country:	*Percentage of total insured investments*
1. Panama	18.51
2. Saudi Arabia	11.89
3. Israel	9.20
4. South Korea	7.42
5. Brazil	4.79
6. Egypt	4.50
7. El Salvador	4.30
Total	60.61

Source: Statement of J. Bruce Llewellyn, July 17, 1979.

[From the Center for International Policy, Washington, D.C., Vol. III, No. 2, September 1977]

INTERNATIONAL POLICY REPORT

OPIC: INSURING THE STATUS QUO

The Overseas Private Investment Corporation, a little known agency of the U.S. government, insures the investments of American multinational corporations in the Third World. Through its insurance and financing programs, OPIC facilitates investments in developing countries by covering them against losses caused by war, revolution or insurrection, expropriation or currency inconvertibility. The agency, in effect, guarantees that a host government will not change the terms of the corporation's initial investment for the life of the OPIC contract (usually 20 years). If a foreign government does interfere with the assets or, in some cases, even the profitability of the multinational. OPIC will step into the dispute to protect the interests of the U.S. corporation.

OPIC was established for the purpose of promoting development in the Third World. Critics, however, argue that during its seven year history the agency has benefitted principally the largest multinational corporations at home and the most repressive developing nations abroad. The agcncy has aroused the ire of U.S. labor unions, who claim that it hastens the export of jobs to low-wage reas. In addition, OPIC-insured investments have brought the U.S. government ato conflict with foreign nations over matters of economic sovereignty.

Originally conceived of as an adjunct to foreign aid, the Overseas Private avestment Corporation was created in 1969 by an amendment to the Foreign As- stance Act. OPIC's enabling legislation directs the agency:

> To mobilize and facilitate the participation of United States private capi- tal and skills in the economic and social development of less developed friendly countries and areas, thereby complimenting the development as- sistance objectives of the United States. . . .[1]

PIC's two major programs, political risk insurance and investment financing, re intended to achieve those ends. Political risk insurance provides coverage gainst the risks of expropriation, currency inconvertibility and war, revolution, r insurrection. Investment financing provides loan guarantees and direct loans in dollars and foreign currencies) to U.S. investors, as well as cost-sharing for re-investment surveys. All of OPIC's obligations are backed by the "full faith nd credit" of the U.S. Treasury.

Government insurance for overseas investment originated under the 1948 Eco- omic Cooperation Act to rebuild post-war Europe. In 1959 the program was mited to developing countries, and was administered by the Agency for Inter- ational Development. A strategy to promote development and restore stability hich had proved successful in the already industrialized countries of Europe as transferred to traditional societies. In less developed countries, however, eco- omic development is often destabilizing and local institutions and enterprises ay not be sufficiently developed to cope with the economic and political power f large foreign firms.

WHO BENEFITS?

The rationale for government insurance of private overseas investment as- mes that such investments promote development. This assumption is by no eans undisputed, and even the Organization for Economic Cooperation and evelopment (OECD), in its 1976 publication *Development Cooperation*, stated:

> Generalizations concerning the benefits from foreign investment for over- all sectors or countries are not useful. Individual project circumstances are governing and each must be assessed on its merits.[2]

oreover, the 1974 United Nations report on transnational corporations identi- ed a major problem associated with foreign investment in underdeveloped coun- ies:

> Multinational corporations, although powerful engines of growth, tend to accentuate rather than reduce inequalities in the absence of proper govern- ment policies and, where necessary, social reforms.[3]

PIC's contribution to development must thus be regarded in light of the agency's rincipal beneficiaries, both abroad and at home.

Between 1974 and 1976, a full 60 percent of the dollar volume of OPIC insur- nce went to only six countries: Brazil, the Philippines, South Korea, Indo- esia, Taiwan, and the Dominican Republic.

It appears to be no coincidence that the main beneficiaries of OPIC insurance re countries ruled by authoritarian regimes which consistently deny their tizens' basic human rights. Each of these countries maintains a level of politi- l stability and labor discipline attractive to multinational corporations and to PIC. However, the cost of achieving a "good investment climate" is often the isregard for citizens' basic economic, social, and political rights. Amnesty In- ernational, a well-respected independent human rights organization, has com- lled extensive documentation of human rights violations in each of the top six untries receiving OPIC insurance.

OPIC, whose legislative mandate comes under Chapter 1, Part I, of the For- gn Assistance Act, is covered by the 1975 Harkin Amendment that requires ermination of bilateral aid to "gross and consistent violators of human rights." o date OPIC has not acted to implement this legislation claiming that it is the esponsibility of the State Department to issue policy directives to OPIC regard- g human rights.

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[1] Title IV, Section 231, Foreign Assistance Act of 1961.

[2] Organization for Economic Cooperation and Development. *Development Cooperation*, 976, p. 27.

[3] United Nations, Department of Economic and Social Affairs. *The Impact of Multina- onal Corporations on Development and on International Relations*, 1974, p. 20.

In 1974 Congress instructed OPIC to direct its programs increasingly toward the least developed countries (those defined by Congress as having yearly per capita GNP's of $450 or less). From 1974 to 1976, only 40 percent of the number of insured projects and only 36 percent of the dollar volume of insurance went to projects in countries classified as least developed. Four countries—Indonesia, the Philippines, Thailand, and India—received 57 percent of the number and 61 percent of the dollar volume of OPIC insurance to least developed countries.

TABLE 1.—OPIC'S LARGEST BENEFICIARIES, BY COMPANY, 1974–76

[In millions of dollars]

Company	Fortune 500 rank[1]	Insurance issued
Dow Chemical	32	181,107
W. R. Grace	47	60,638
J. P. Morgan	B5	49,316
Celanese	108	46,856
General Telephone & Electronics	U7	42,494
Getty Oil	61	42,492
Bank of America	B1	36,497
Standard Oil of Indiana	13	34,580
Weyerhaeuser	72	28,150
ITT	10	28,103
RCA	34	28,007
Total		589,322

[1] B denotes bank, U denotes utility.

Source: Department of Treasury.

Rutherford Poats, OPIC's acting president, in testimony before the House Subcommittee on International Economic Policy and Trade on June 21, 1977, acknowledged OPIC's rather limited progress in directing its programs away from a small number of middle and upper income Third World countries: "There has been only a moderate dispersion of the overall concentration of OPIC's insurance by dollar volume."

However, Mr. Poats assured the subcommittee that greater efforts will be made to give preferential consideration to projects in the least developed countries. Furthermore, Mr. Poats said, ". . . the recent Executive Branch reviews concluded that, with certain exceptions to be approved by the OPIC Board, OPIC programs should no longer be generally operative in the upper income and economically dynamic developing countries."

That OPIC's concentration in middle to upper income countries was part of a conscious policy decision is suggested in testimony by former Secretary of State Henry Kissinger during a surprise appearance before a Senate Subcommittee, on August 4, 1977:

> I think it is clear that countries such that I would call for these purposes sort of a middle class of countries, that are not the poorest and that are not yet fully developed, serve our national interests in a number of ways. . . . First, they serve as an example of what can be achieved by a combination of proper international policies and national commitments. Secondly, the foreseeable international dialogue will involve, inevitably, as one of its central elements, a North-South discussion of issues of development and other issues. I think it is against the national interest of the United States to polarize the world between the haves and have-nots, between a small group of rich countries and a large group of countries that are so resentful of the existing system that they support any radical attack on the existing system.

Kissinger concluded, "A middle class group of countries can act as a bridge between the industrialized countries and the developing countries, sharing some of the problems of each of them and can in any case play a useful mediating role."

OPIC's finance programs have shown a stronger orientation toward the least developed countries. Between 1974 and 1976, 59 percent of the number and 82 percent of the dollar volume of OPIC's financing went to these areas. The four largest recipients—Indonesia, Sudan, Ghana, and Liberia—together received 65 percent of the dollar volume of OPIC's financing assistance.

Domestically, however, the greatest beneficiaries of OPIC's programs have ontinued to be the largest multinational corporations. From 1974 to 1976, PIC insurance was increasingly concentrated in firms from Fortune's top 0 corporations and top 50 banks, utilities, and transportation firms or their ubsidiaries. Between 1974 and 1976, a full 41 percent of the insurance issued y OPIC went to the following eleven corporations, in descending order: Dow hemical, W. R. Grace, J. P. Morgan, Celanese, General Telephone and Elec- ronics. Getty Oil, Bank of America, Standard Oil of Indiana, Weyerhaeuser, TT, and RCA.

In 1974, 49 percent of the number of OPIC-insured investors could be found Fortune's lists; in 1975 that figure was 62 percent and by 1976, fully 68 ercent went to Fortune's largest. Furthermore, the dollar volume of insur- nce has become increasingly concentrated in the top ten companies receiving surance. In 1974, the top ten firms received 57 percent of the dollar volume insurance; by 1976 that figure was 71 percent.

The increasingly large concentration of insurance going to these companies ises further questions regarding the necessity of the program. First, the sured corporations, all with annual sales above $1.9 billion, may well be pable themselves of absorbing losses now guaranteed by the U.S. govern- ent. Second, these enterprises are not incapable of risk management schemes their own design; the 1973 Senate hearings revealed that government sub- dization of risk led to more lax behavior abroad on the part of some compa- es than would otherwise have been the case. Third, to the extent that OPIC's eserves are limited there exists the possibility of a U.S. taxpayer bailout of e largest multinationals. Because OPIC's obligations are backed by the 'ull faith and credit" of the U.S. Treasury, this potential remains. Finally, eveloping countries themselves have shown great sensitivity to the penetra- on of key sectors of their economies by large foreign multinationals.

TABLE 2.—OPIC'S LARGEST BENEFICIARIES, BY COUNTRY, 1974-76

[In millions of dollars]

Country	Percent of OPIC total	Insurance issued
azil	21.0	306,788
ilippines	10.5	151,378
uth Korea	9.2	133,957
donesia	8.8	127,124
wan	5.8	83,638
minican Republic	4.1	59,380
goslavia	3.8	54,294
Total	63.2	

Source: OPIC.

THE IMPACT ON DEVELOPMENT

In 1973 the House International Relations Subcommittee on Foreign Economic olicy reported that:

> This subcommittee does not view OPIC as a competitive tool to encourage U.S. exports or gain control of overseas markets; OPIC should be primarily development oriented.[6]

PIC's effectiveness as a tool of U.S. aid policy may, however, be limited by e criteria it uses in defining development and by its monitoring procedure. In actice OPIC does not initiate investments, rather it facilitates them, and all PIC contracts must have the approval of the host government.

Whether the needs of the investing enterprise are compatible with rational evelopment in the host country is open to question. The reasons for which a rporation invests abroad do not usually include a central concern for develop- ent of the host country. Firms expand overseas to increase their markets, to mp tariff walls, to exploit cost differentials (lower wages), etc.

In the past three years, OPIC has granted insurance for the following projects:

ITT and TWA safari lodges in Kenya.

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[6] United States House of Representatives, Committee on Foreign Affairs, *The Overseas rivate Investment Corporation*, 93d Congress, 1st session (Washington, D.C., 1973), p. 36.

Ralston Purina fast food chains in Brazil.
Avis Rent-a-Car rental and chauffeur services in Malaysia and Singapore.
Pan Am Intercontinental hotels in Liberia, Kenya, Indonesia, and the Ivory Coast.
ITT Sheraton hotels in India, Brazil, and Tunisia.
Art galleries, plush hotels, and secretarial schools in Haiti.
Gulf and Western hotels in the Dominican Republic.

Such investments certainly do not help the U.S. image among impoverished peoples, and suggest that OPIC has become more of a service to U.S. business than an instrument of aid policy.

OPIC relies on information supplied by the investing firm to determine the developmental impact of a given project. In its lengthy application form, OPIC requires an interested firm to outline the developmental benefits to the host country, as well as the impact on the U.S. economy. Such variables as balance of payments, sources of capital, tax revenue, employment, and tariff protection are considered. However, no formal category exists to describe social or cultural dislocations, the income distribution effects of a given investment, or the host government's policies regarding the use of resources generated by the investment.[5]

Ongoing developmental impact data is also supplied by the investing firm, supplemented by United States embassy evaluations, and only occasional onsite visits by OPIC officials. The variables OPIC considers in measuring a project's performance often do not include important, and deleterious, social consequences.

In Western Samoa an OPIC-insured lumbering venture by the Potlatch Corporation upset traditional patterns of communal land ownership. Western Samoans may pay in farm land shortages and depleted government revenues as scarce national resources are diverted to Potlatch facilities.

Another example is Brazil, where in accordance with the host government's policy of promoting agricultural exports, OPIC in 1973 offered Cargill Corporation $2.5 million in financing for the growing and processing of soybeans. The increase in soybean production for export displaced traditional food bean crops. As a result, the price of beans for domestic consumption has tripled and nutritional standards for the Brazilian poor have been lowered significantly.[6]

TABLE 3.—OPIC COMPARED TO INVESTMENT INSURANCE PROGRAMS OF OTHER DEVELOPED COUNTRIES

[Dollar amounts in millions]

Country	Total investment under cover, Dec. 31, 1974	As percent of U.S. total
United States	$2,985.8	
Japan [1]	1,075.5	36.0
Germany	406.0	13.6
Canada	44.6	1.5
Switzerland	42.7	1.4
United Kingdom	30.1	1.0
France	17.3	.6

[1] Japan's program includes insurance coverage in developed countries.

Source: OECD, Investing in Developing Countries, 3d edition, Paris, 1975.

Because Brazil has received so much U.S. aid and investment as well as a large share of OPIC coverage, it deserves special attention. Total OPIC exposure in Brazil is $422.6 million. During the 1974–1976 period 21 percent of OPIC's new insurance ($306.8 million) was issued in Brazil, more than twice as much as the second-ranked Philippines.

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[5] This latter consideration was judged crucial by Fred Bergsten, *The Impact of Development of U.S. Policy Toward Foreign Direct Investment: A Report to AID*, Brookings Institution, May 1978, p. 9.

[6] Erik Eckholm and Frank Record, "The Two Faces of Malnutrition," Worldwatch Institute, Washington, D.C., December 1976, p. 50.

For many years Brazil was promoted as a model for other Third World countries to follow, an economic success story. Yet, it has become painfully obvious that development involves more than merely increasing a country's GNP. While Brazil's GNP has grown at an impressive rate and per capita income now exceeds $1,000 a year, its high per capita income obscures the fact that there are still 43 million Brazilians existing on per capita incomes of $250 or less per year.

The poor in Brazil have not shared its economic boom, and, in fact, their share of the national income has actually declined. In 1960, according to the World Bank, the poorest 20 percent of Brazil's population received 3.5 percent of the national income. By 1970 the poorest 20 percent's share had shrunk to only 2.8 percent of Brazil's national income. Meanwhile the richest 20 percent of the population increased their share of the national income from 62.1 percent in 1960 to 67.3 percent in 1970.

Since 1946 the United States alone has provided Brazil with over $3 billion in direct bilateral economic aid. In the Third World only India has received more multilateral aid than Brazil. Brazil also leads the Third World in loans from U.S. commercial banks. Multinational corporations have invested more money in Brazil than in any other Third World country.

The obvious question is: After all the money and effort our aid program have lavished on Brazil, why has the per capita income of Brazil's poor majority remained so miserably low?

OPIC bases its claim to be "development oriented" on the premise that multinational corporations promote the type of development that improves the lot of needy people. Multinational corporations, however, including those insured by OPIC, are primarily responsible to their shareholders and have as their goal to maximize profits. Multinational corporations and needy people in the Third World have different, often conflicting interests, priorities and needs, a reality unaltered by the existence of the OPIC program. In the Third World, as well as in the United States, the beneficiaries of the OPIC insurance and finance programs appear to be not poor people, but rather the local elites and the managers and shareholders of multinational corporations and banks.

OPIC AND U.S. FOREIGN POLICY

Despite OPIC's representations to the contrary, OPIC exists chiefly to create an identity of interest between the U.S. government and American corporations abroad. This relationship may deter host governments from expropriating U.S. property for fear of government reprisals, or may even encourage expropriation by militant nationalists as a direct blow to the U.S. government. A 1971 State Department report on nationalization concluded that most expropriatory actions were political, not economic, in motivation.[3]

Inherent in the nature of OPIC contracts is the potential for confrontation between the United States and a host government. Virtually all OPIC contracts are written for a period of 20 years. Third World governments change much more frequently. Yet, what OPIC insures is that over the long run, host governments will not change the terms of the initial investment in a manner adverse to a U.S. corporation.

Two factors assure the inherent instability of OPIC contracts. First is the rapid social and political change taking place as Third World nations modernize economically. Second is the shift in "bargaining power" between corporation and host government, as the latter gains knowledge and expertise in managing the investment.

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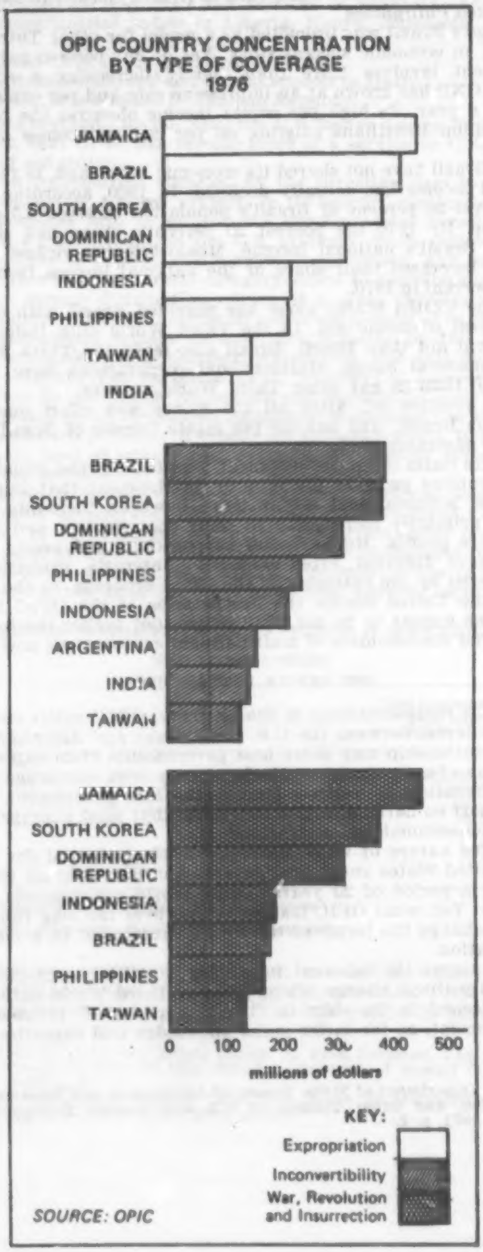
[3] United States Department of State, Bureau of Intelligence and Research, "Nationalization, Expropriation, and Other Takings of U.S. and Certain Foreign Property Since 1960," November 1971, p. 2.



OPIC COUNTRY CONCENTRATION BY TYPE OF COVERAGE 1976

SOURCE: OPIC

Through OPIC, the U.S. government may find itself protecting the status quo terests of U.S. business often against the wishes of a host government and its ople. The case of Revere Copper and Brass in Jamaica vividly illustrates this int.

In 1974 Prime Minister Michael Manley, who had been elected two years rlier passed new bauxite taxes. He renounced earlier agreements, and deared Jamaica's sovereignty over its most important natural resource. Of the x companies mining bauxite on the island, only one, Revere, closed down, arging that the bauxite levy rendered its operation "uneconomical." Revere, no had OPIC insurance, filed a claim for $64.2 million, on the grounds that Many's tax constituted "creeping expropriation."

OPIC's enabling legislation defines expropriation as:

> Any abrogation, repudiation, or impairment by a foreign government of its own contract with an investor with respect to a project, where such abrogation, repudiation, or impairment is not caused by the investor's own fault or misconduct and materially adversely affects the continued operation of the project.

The Jamaican government, however, did not seize Revere's property or assets. raised bauxite taxes and redefined a contract made under a previous administration. OPIC has contested Revere's claim, saying the Jamaican bauxite levy sn't the type of government action against which OPIC insures." At issue is e Jamaican government's sovereign right to tax.

Other questions of economic sovereignty have also been raised in regard to PIC. OPIC will not issue an insurance contract until the host government has gned a bilateral treaty ensuring OPIC's right to subrogation. This refers to the S. government's right to assume the assets (and liabilities) of a company that s been expropriated after OPIC has paid the companys' insurance claim. The lateral treaty also requires that investment disputes be submitted to international arbitration, rather than be litigated in courts of the host country.

The Andean Code of 1969 illustrates that these provisions are no longer acceptle to some developing countries. (The Andean Group consists of Bolivia, Ecuar, Peru, Venezuela, and Colombia.) Article 51 of this regional development de provides,

> That no instrument relating to foreign investment or technology transfer may contain clauses allowing subrogation by States of their national investor's right or removing possible disputes from the jurisdiction of the recipient country.[8]

ABLE 4.—*Net private dircct investment in less developed countries, 1973–75*

	In millions of dollars
nited States	$4, 580. 6
ermany	767. 9
pan	746. 6
nited Kingdom	686. 7
rance	266. 9
anada	206. 0

Source: OECD.

ecause of this clause, OPIC has not issued any insurance in any Andean Group untries since 1969. The suspension of insurance underwriting illustrates OPIC's fficulty in adapting to changing conditions in the developing world, especially hen initiatives for changes come from the developing countries themselves.

In early 1977 Chile withdrew from the Andean Group and OPIC, which has 22 plications for insurance in Chile, is involved in the negotiation of a new lateral treaty. One senior OPIC official, however, has said, ". . . issuing conacts in Chile would ruin us in Congress." OPIC, while prepared to do business Chile, is apparently holding back because of opposition in the State Department and in Congress. International unions such as the International Conderation of Free Trade Unions and the World Confederation of Labor have so protested the reactivation of the Chile program.

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[8] United States Senate, Committee on Foreign Relations, Hearings: Multinational Corrations and U.S. Foreign Policy, 93rd Congress, 1st session (Washington, D.C., 1973), 145.

RUNAWAYS AND THE WORK FORCE

United States labor has been against OPIC since the program's inception. The largest unions have claimed that OPIC is part of the package of tax incentives and subsidies that encourage corporations to move production to low-wage areas in the Third World. Labor-intensive industries and stages of production in shoes, textiles, and electronics have been especially hard hit by foreign imports.

Largely as a result of pressure from organized labor, OPIC's 1974 legislation included a provision that OPIC refuse to issue contracts to investors:

> If . . . such an investment is likely to cause such investor . . . significantly to reduce the number of his employees in the United States because he is replacing his United States production with production from such investment which involves substantially the same product for substantially the same market. . . .[9]

TABLE 5.—INSURANCE BY COUNTRY,[1] 1976

[In millions of dollars]

Country	Expropriation	Inconvertibility	War, revolution and insurrection
Jamaica	453.7	45.2	452.1
Brazil	422.6	393.1	174.1
South Korea	390.9	387.0	387.3
Dominican Republic	325.4	313.1	310.9
Indonesia	231.4	216.7	180.5
Philippines	229.4	234.0	165.2
Taiwan	147.2	127.0	132.7
India	117.7	140.2	92.5
Guinea	92.9	98.3	64.6
Argentina	79.2	156.2	57.5
Ghana	76.7	70.1	57.1
Singapore	73.4	35.5	71.7
Trinidad and Tobago	65.8	73.3	72.2
Iran	62.1	83.0	57.8
Colombia	58.8	57.4	47.4
Thailand	58.3	68.9	46.1
Kenya	55.2	50.2	53.7
Greece	51.8	51.5	48.8
Liberia	46.0	30.2	15.7
Venezuela	44.5	44.7	34.7
Israel	40.1	33.9	52.4
Chile	38.3	58.3	35.7
Malaysia	35.8	33.6	35.0
Panama	34.7	31.3	28.1
Costa Rica	29.6	39.6	15.3
Turkey	26.4	35.4	10.8
Jordan	25.8	21.9	16.8
Pakistan	24.6	22.3	21.5
Yugoslavia	23.9	51.4	20.9
Vietnam	20.9	NA	20.5
Honduras	20.4	17.0	14.7
Ecuador	18.8	16.1	12.4
Nicaragua	15.1	9.0	11.1
Morocco	13.9	10.2	10.4
Zaire	13.0	12.9	11.7
Ivory Coast	12.7	12.3	9.5
Botswana	11.8	NA	NA
Sierra Leone	11.4	12.3	23.9
Other	97.7	106.2	47.4

[1] Total outstanding portfolio.

Source: OPIC.

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[9] Title IV, Section 231(m), Foreign Assistance Act of 1961.

TABLE 6.—KENYA: OPIC INSURED PROJECTS, 1974–76

[In thousands of dollars]

Investor	Fortune 500 rank [1]	Type of product	Size of insured investment	Largest single maximum coverage
1974:				
CPC International	68	Maize processing	432	864
Del Monte	162	Pineapple processing	7,750	12,777
TWA Hilton International	T1	Game lodges	1,200	1,924
TWA	T1	Hotel expansion	254	507
1975:				
Chesebrough Ponds	278	Manufacture toiletries	214	428
CPC International	68	Maize processing	393	393
First National City Overseas Investment	B24	Commercial bank	1,260	1,260
Gillette Co.	148	Manufacture razor blades	249	498
1976:				
Avis Rent-a-Car		Safari lodge	362	674
Chesebrough Ponds	278	Manufacture toiletries	300	300
Continental Ore Corp.	157	Expand mining and milling	156	312
Fonville Enterprises		Expand cattle ranching	57	114
Gillette Co.	148	Manufacture razor blades	391	391
Pan Am Intercontinental Hotels	T9	Expand hotel	274	547
Nile Investments		Manufacture plastic pipe	252	391
George L. Small		Expand cattle ranch	59	71

[1] T denotes transportation company, B denotes bank.

Source: OPIC Annual Reports, 1974, 1975, 1976.

Although OPIC has undertaken to implement this legislation, several problems with OPIC's procedure suggest that the interests of U.S. workers are not adequately protected.

First, OPIC's application process relies wholly on information supplied by the interested investor. OPIC cannot monitor U.S. job or export displacement other than through the representations of the firm involved.

Second, OPIC's "runaway" clause is worded to cover only intrafirm transfers of work, that is, the shifting of one firm's U.S. production to production abroad by the same firm. Often, however, transfers of work are indirect, involving numerous companies which either (1) stop buying from a U.S. supplier and begin purchasing from an overseas producer, or (2) subcontract a stage of production to an overseas plant, instead of using U.S. labor. In both cases, there may be a loss of U.S. jobs in labor-intensive stages of production.

The Commerce Department often aids OPIC in determining the effects on domestic employment and on the U.S. trade balance of a given investment. Occasionally, OPIC and Commerce will endorse insurance to companies that ship a major portion of their overseas production back to the United States. OPIC and Commerce argue that such insurance is justified on the grounds that a firm, to remain competitive, must subcontract stages of its production to lower-wage areas.

For example, Fairchild Camera and Semiconductor acquired OPIC insurance for a maximum of $17.3 million for two electronics components investments in Korea in 1975, and in Indonesia in 1974. The Indonesian plant exported nearly all of its production back to the United States, and the Korean operation sent back roughly half of its output.

Meanwhile, between 1974 and 1976, approximately 22,400 U.S. electronics workers applied for, and were granted, Trade Adjustment Assistance from the Department of Labor. This office, created under the Trade Reform Act of 1974, provides limited financial compensation to U.S. workers whose jobs have been lost due to competition from imports. One hundred and thirty of the workers receiving assistance were from Fairchild itself.

Fairchild's investments abroad were not considered runaways because the long-term effects on the U.S. economy, as defined by the investing firm, OPIC, and Commerce were considered positive. However, none of the governmental, and only one of the private sector members of OPIC's eleven-member Board represent organized labor. The bargaining scale in this situation is clearly tipped away from those workers and unions who cannot match the international mobility of large multinational corporations.

OPIC erodes the bargaining power of U.S. labor in additional ways. The six countries which have received the most OPIC insurance from 1974 to 1976 are all governed by authoritarian regimes which to a large extent deny basic trade union freedoms. For example:

In Brazil workers have no right to strike or to demand collective bargaining.

In South Korea workers have no right to strike, and the Federation of Korean Trade Unions is tightly controlled by the government.

In Indonesia strikes are forbidden in "essential industries" and civil servants and government employees are prohibited from forming unions.

In Taiwan the Labor Disputes Act of 1943 prohibits strikes and shutdowns during "periods of public emergency" which have existed since the 1949 Communist victory on mainland China.

In the Dominican Republic the government has created numerous "free zones" where the right to strike or form unions is prohibited.

U.S. workers cannot compete when repressive foreign governments assure American corporations of a docile and cheap labor force abroad.

Efforts to draft codes of conduct for multinational corporations have met with only limited success. The OECD guidelines recommend that enterprises:

> Respect the right of their employees to be represented by trade unions and other bonafide organizations of employees . . .[10]

Similarly, the International Confederation of Free Trade Unions declares that:

> Multinational companies shall follow the laws, the rules and the practices of the host country regarding the labor market only if these are not inferior to the standards of the ILO in which case those of the ILO shall be followed.[11]

PARADISE LOST: OPIC AND POTLATCH IN WESTERN SAMOA

Western Samoa, a group of tiny islands in the Western Pacific, has all the elements of an island paradise: mild tropical climate, spectacular physical beauty and a natural abundance of tropical fruits and coconut trees. It also has large tracts of primary tropical rain forests containing marketable hardwoods.

In 1968, after lengthy negotiations with Samoan legislators, the Potlatch Corporation, a large U.S. multinational lumber company, started construction of a sawmill and port facilities to harvest and market over a dozen species of Western Samoa's hardwoods, to be used for furniture and veneers. In 1974 the Overseas Private Investment Corporation extended $3 million of insurace to Potlatch to cover its Western Samoan operation, primarily a sawmill and veneer plant.

The impact of Potlatch's investment on the lives of the 155,000 Western Samoans, and on the economy and ecology of the islands, is illustrative of many of the problems large investments by multinational corporations create in underdeveloped societies. The following account is based on an article that appeared in the October 1975 issue of *National History* magazine.

Negotiations between Potlatch and Western Samoa were initiated in 1965 by the regional director of the United Nations Development Program in Western Samoa, who was subsequently hired by Potlatch to act as a Potlatch lobbyist in the Western Samoan Parliament. Western Samoa's Prime Minister was flown to the United States to view Potlatch's operations, and on his return to Samoa became one of the most enthusiastic advocates of the corporation's plan.

In 1967 the Western Samoan Parliament approved Potlatch's proposal to invest about $6 million in a milling operation and a treefarming project that would involve leasing between 14 percent and 23 percent of the entire land of Western Samoa. For its part, the Western Samoan government agreed to (1) act as a land broker on Potlatch's behalf; (2) be solely responsible for carrying out a tree replanting program to replace trees harvested by Potlatch; (3) provide Potlatch

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[10] Organization for Economic Cooperation and Development, *International Investment and Multinational Corporations*, 1976, p. 16.

[11] International Confederation of Free Trade Unions, *Multinational Charter*, Brussels, Belgium, 1975, p. 45.

th a moratorium on taxes and with customs exemptions, as well as foreign
change privileges; (4) lease land to Potlatch for its sawmill; (5) build a
harf and dredge the harbor for Potlatch's use.

Potlatch's need to lease such an enormous land area brought the corporation
to direct conflict with the Samoan communal land law, which prohibited the
le or lease of Samoan land to *anyone*, even other Samoans.

According to *Natural History*, "Under [the communal land system] extended
mily units in each village hold title over various plots of land that are owned
rough use. When not in use or fallow, the land may revert to the village as a
hole or to other families who will use it." A 1962 law made certain exceptions,
lowing some land to be leased for commercial purposes. The Potlatch proposal,
wever, was of a completely different scale.

In the end the wharf and harbor cost the government almost five times the
ojected initial figure. Foreign engineers had failed to examine the harbor
ttom, which was solid coral. It took over four years of blasting to open a
ipping channel. The repayment of loans used to finance the unexpectedly large
tlays necessary to build the wharf and dredge the harbor cut deeply into
venues the Samoans anticipated from Potlatch. Thus the project's contribution
Western Samoa's balance of payments is small.

Potlatch officials point out the fact that their operations provide employment
r 300 people. However, as *Natural History* noted, ". . . in the context of an
derdeveloped economy like Western Samoa's, it is important to understand
at these new Potlatch employees were not necessarily unemployed when they
re hired by the corporation. What Potlatch did was shift employment
portunities, through training programs, from agriculture, civil service, and
ht industry to forestry; this can be viewed as an ungrading of the labor
rce. At the same time, though, by leasing enormous tracts of land, Potlatch will,
a certain point create a situation in which Samoan peasants may not have
fficient land on which to carry out peasant agriculture, and given the scarcity
land, coupled with population growth, Potlatch may be contributing to
employment in peasant agriculture while creating employment in forestry."

Also effected by Potlatch's project in Western Samoa is the ecology of the
and nation. Large scale cutting of Western Samoa's forests is almost certain
cause at least some increase in erosion, as the thin layer of top soil on the
or of the rain forest is disturbed. Further, since the Potlatch agreement
legated full responsibility for the reforestation program to the government of
estern Samoa, it is quite beyond the power of the Potlatch Corporation to
arantee that new seedings will be planted.

Natural History concludes, "When all the economic, social and ecological
anges which could affect the people of Western Samoa due to Potlatch's
esence are considered, it is apparent that the Western Samoans are taking a
rger gamble than is the corporation. Potlatch can measure its successes and
sses by calculating the financial return on its investment; no such clear-cut
ndard can be applied to these people or their islands."

OPIC Program Profile

Political risk insurance is by far the largest of OPIC's programs. As of De-
nber 31, 1976, OPIC was administering contracts having a combined face value
$9,547.5 million. (A large portion of this total was inherited from OPIC's prede-
ssor, AID.) This figure includes $3,135.8 million for inconvertibility, $3,550.3
llion for expropriation, and $2,861.4 million for war, revolution, and insurrec-
n. Firms pay a premium of 1½ percent for coverage under all three categories,
th slightly higher fees for "large and sensitive projects" in areas such as
ning.

OPIC's exposure on a yearly basis is significantly less than the combined total
contracts it has issued under all three categories of insurance. OPIC main-
ns that its obligation to an investor is limited to the largest single category
coverage. In OPIC's existing portfolio, expropriation is the largest single cate-
ry. In addition, a firm can annually choose to carry the full amount of insur-
ce it has contracted with OPIC, or it can place a portion of that on "stand-by."
rrent coverage for expropriation and war risk must, however, at least equal the
ount of investment at risk.

Thus, in 1976 OPIC's current potential liabilities consisted of $947.5 million for
onvertibility, $2,558.1 million for expropriation, and $2,085.2 million for war,
olution, and insurrection.

OPIC's finance program is considerably more modest in scope. In 1976 OPIC issued $28 million in loans and guarantees, compared with $1.2 billion in insurance. By the end of fiscal year 1976 OPIC's loan program had total outstanding commitments of $231.2 million, consisting of $200.2 million in loan guarantees, and $31 million in direct loans.

OPIC is authorized to issue up to $750 million in loans, but must hold a minimum of 25 percent of its outstanding portfolio in its reserves. The current reserve is 35 percent of outstanding loans. OPIC's insurance authorization extends up to $7.5 billion, with no similar requirement for minimum reserves.

The legislation creating OPIC in 1969 granted it the authority to borrow up to $100 million from the Treasury in the event that claims payments ever exceeded reserves. In addition, congressional appropriations (all before 1974) have totalled $108 million. Because the "full faith and credit of the U.S. Government" is behind all OPIC obligations, further congressional appropriations would be necessary if claims exceeded reserves.

For example, the large-scale nationalizations by the Allende government in Chile resulted in claims against OPIC totaling $389.0 million; OPIC's insurance reserve in 1973 was only $142.6 million. Only the willingness of the military junta that overthrew Allende to settle with OPIC prevented the agency from having to seek additional appropriations from Congress.

In accordance with the 1974 congressional mandates to privatize and to adhere to principles of sound risk management, OPIC has entered into risk-sharing schemes with the private sector. The Overseas Investment Insurance Group, formed in 1975, now consists of OPIC and 21 private insurance companies. The private insurers now subscribe to 25 percent, or $10.2 million, of a $40 million-per-country, and $80 million worldwide, first loss pool on new contracts for expropriation and inconvertibility. Lloyd's of London has also reinsured a portion of OPIC's existing portfolio for these two coverages.

Private companies, however, have been unwilling to underwrite directly or reinsure war risk policies. OPIC has formed a War Risk Insurance Reciprocal, in which insured firms insure each other's risks; the Reciprocal covers 40 percent of a $25 million-per-country, and $125 million worldwide, first loss, with OPIC responsible for the remainder.

OPIC is now asking Congress to repeal the 1974 statutory requirement that OPIC withdraw entirely from writing expropriation and inconvertibility insurance by 1979 and of war insurance by 1980, due to the unwillingness of private insurers to assume OPIC's risks.

However, such provisions are currently unenforceable and are undermined when official agencies such as OPIC condone their violation by insuring investors in repressive countries. Already, the European Trade Union Council of the European Economic Community has adopted resolutions calling for the termination of government insurance to countries violating trade union freedoms.

SHOULD OPIC'S LEGISLATIVE MANDATE BE RENEWED?

Congress is being asked to renew OPIC's legislative mandate for another four years. In reviewing OPIC's record, Congress should consider the following questions:

Who have been the main beneficiaries of OPIC coverage?

Why has 60 percent of the dollar volume of OPIC insurance between 1974 and 1976 gone to just six countries: Brazil, the Philippines, South Korea, Indonesia, Taiwan, and the Dominican Republic?

Why is it that these same top recipients of OPIC insurance are all countries which are documented human rights violators and which place severe restrictions on or outlaw completely labor unions?

Why has 41 percent of OPIC insurance issued between 1974 and 1976 gone to just eleven of the largest U.S. multinational corporations?

What is OPIC's impact on jobs in this country?

What kind of development is OPIC fostering in the Third World? And finally,

Does the identity of interest that OPIC forges between the U.S. government and U.S. multinational corporations interfere with the higher goals that must guide U.S. foreign policy?

A review of OPIC's record in these areas indicates that it has not accomplished its stated purpose but has benefitted a few of the largest corporations. Further, it is clear that OPIC has failed to follow the many directives that Congress amended to OPIC's 1974 legislative renewal bill, including directives to reduce its country concentration and to give preferental treatment to small businesses.

Of all the 1974 congressional directives, however, the one that has most worried PIC's management is an amendment introduced by Senator Frank Church hich OPIC is now asking Congress to repeal. It directed OPIC to turn its inurance business over to private, commercial insurance companies by 1980. OPIC as succeeded in enlisting Lloyds of London and a few U.S. insurance companies share part of "first loss" risks in expropriation policies, but the private companies have demanded high premiums and refused to write policies of more than ne year's duration.

OPIC issues policies for 20 years, in effect guaranteeing that host governents will not change the terms of a multinational corporation's initial investent for that period. Given the riskiness of insuring the economic status quo in he Third World, private insurers are unwilling to take such a gamble. It is the .S. taxpayer who is left to guarantee the safety of the foreign investments of .S. multinational corporations, although few taxpayers have even heard of the PIC program, fewer still benefit from it.

CYNTHIA ARNSON.
WILLIAM GOODFELLOW.

Senator SARBANES. Mr. Hawkins?

TATEMENT OF ROBERT HAWKINS, PROFESSOR OF ECONOMICS AND CHAIRMAN OF THE INTERNATIONAL BUSINESS DEPARTMENT, NEW YORK UNIVERSITY GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, NEW YORK, N.Y.

Mr. HAWKINS. Thank you, Mr. Chairman. I appreciate the opporunity to present my views on S. 2186.

I have a slightly longer statement that I would like to submit for he record, which I will summarize.

Senator SARBANES. It will be included in the record in its entirety.

Mr. HAWKINS. There are two questions which could be considered vith respect to the proposed legislation: One is whether OPIC is vorthwhile or serves a useful national purpose at all; the other is oncerned with the specific form and mission for OPIC embodied n the bill.

From an economic perspective, OPIC programs may be viewed as means of socializing or spreading the risk of capital loss due to olitical and public order acts covered in the bill. This provides an American multinational with additional alternatives in the "risketurn" spectrum which it faces when it makes a foreign investment. More specifically, it allows a company for a fee to eliminate the ossibility of catastrophic capital loss, due to expropriation, civil pheaval, or blocked earnings. This spreading of the risk of catatrophic loss may or may not involve an indirect subsidy of the foreign nvestor.

On the one hand, if the number of risks are sufficiently large nd the premiums and other charges for insurance and guarantee rograms are adequate to cover the loss experience, then OPIC imply serves a catalytic role in providing self-supporting insurance n a mutual basis, similar to any mutual insurance company. But, o the extent that the U.S. Treasury acts as supplier of initial capital, s potential residual insurer, and as debt guarantor for OPIC, an mplicit subsidy is provided to the insured companies. The operations f OPIC, it seems to me, involve both some degree of implicit subidization and a mechanism for spreading certain types of risk of atastrophic loss at an explicit charge.

The result of both of these aspects is to expand the risk-return alternatives for U.S. companies and, to a partial degree, subsidize the reduction of that risk. The result of both is to increase at the margin the volume of foreign investment by U.S. companies above the level it would have achieved without OPIC programs. This seems to me to be an incontrovertible proposition.

This does not imply that all foreign investment insured or credits guaranteed by OPIC are net additions to the foreign investment flow. Some companies would have carried out their projects in the absence of OPIC insurance. In such cases, the OPIC coverage does not alter the flow of foreign investment but does provide a service which private companies are unable or unwilling to serve. To this extent, OPIC's activities are economically justifiable, even in cases in which the flow of foreign investment is not affected.

The assessment of whether OPIC is justified revolves not only around whether it stimulates additional foreign investment by U.S. companies, which is perhaps the most obvious and important concern, but whether it is a cost-effective vehicle for spreading the risk of foreign investment which would have occurred without insurance. I believe OPIC serves a positive role in both cases and I support its continuation.

Increased U.S. investment in poor countries injects private American capital and management which contributes to those countries' economic development. The contribution to the nations' economic development is desirable in its own right, but the fact that the foreign capital is private and hopefully competitive may lessen a general tendency toward socialization and bureaucratization in those developing countries.

It helps integrate the host nation into the world economy, which must be viewed as favorable for the U.S. national interest.

There are also benefits to the U.S. economy which have been articulated by the previous panel. First, U.S. exports of capital equipment and other exports are stimulated. Some studies have estimated that on average, over 50 percent of the initial investment capital in developing countries by U.S. companies are expended on capital equipment and materials from the United States. Likewise, a continuing stimulus to exports from the United States is encouraged as a result of imports of spare parts and raw materials and other material inputs.

Finally, in the extractive sector, long-term supply of raw materials for the U.S. economy is enhanced.

A potentially negative offset for the American economy from this foreign investment expansion is due to OPIC operations that occur when an American firm sets up foreign production to serve a foreign or domestic market which would have, or has been, served from U.S. production facilities. My personal view is that these job displacement effects of the foreign operations of U.S. companies are, on a net basis, rather small and that the benefits of relatively unfettered foreign investment considerably outweigh the costs.

I hold this view because I believe that a considerable majority of foreign direct investment, especially in manufacturing, is defensive in nature, and made in response to perceived competitive thrusts of foreign companies. If this view is substantially accurate, and I submit that the weight of the evidence supports it, the loss of domestic production jobs cannot be mainly attributed to increased foreign production by U.S. companies. The jobs would likely have been lost anyway to foreign expansion by Japanese and European competitors of the U.S. companies. It is the increased competition, the increased foreign competition that is the culprit, not the decisions of American companies to produce abroad, which is a response to that competition.

While there may be some modest gross displacement of domestic output and employment by foreign direct investment, the investment in developing countries eligible for coverage or actually covered by OPIC programs is a relatively minute share of that total foreign investment. Thus, the potential impact on U.S. jobs and the U.S. economy is correspondingly small. Eliminating OPIC is not the appropriate means for addressing unemployment problems in general or the adjustment costs of foreign investment to developing countries in particular.

There is one additional general point which appears to me to favor the continuation of OPIC. Changes in host government policies which affect the convertibility of currencies by U.S. investors, or nationalization or confiscation of insured U.S. company investment, brings an agency of the U.S. government directly and immediately into the dispute. This may serve as an additional deterrent in some instances to arbitrary and capricious policy changes by host governments.

I have a few brief comments on specific aspects of the legislation which, in general, I favor. Indeed, I favor most of the provisions, although I consider some provisions unnecessary and oppose a few.

The intent to turn OPIC into a free-standing government corporation seems to me to be desirable but not necessarily essential. Likewise, I am ambivalent over the issue of who should be the chairman and cochairman of the OPIC Board. I doubt that the administration of OPIC programs would be much affected by either of these proposed changes.

The bill gives heightened emphasis to the export-stimulus effect of OPIC programs. This, I believe, is unnecessary. First, foreign affiliates of U.S. companies have a natural tendency to stimulate U.S. exports. Second, application of very rigorous criteria for export stimulus may exclude from coverage projects which may be more desirable and meaningful for the promotion of the development of the host country. Third, elevation of the export stimulus criteria may bias applications from companies and engenders additional administrative burdens on applicants to prove that the export criterion is met.

Sections 101 (k) and (l) render ineligible for OPIC programs any project which would significantly reduce the number of the investor's U.S. employees or adversely affect U.S. employment in general. This provision seems to me to involve a criterion which is simultaneously too vague and too rigid, and also a criterion which is largely impossible to apply. OPIC already attempts to consider domestic employment effects among the several criteria it applies in deciding eligibility for specific projects. To further require the OPIC staff to determine whether a project is likely to cause a reduction in domestic employment, the investor is placing the burden of proof on the staff, which it cannot fulfill in any unambiguous manner.

A hypothetical example may illustrate this point. Suppose Texas Instruments closes a U.S. plant while opening an electronics component plant in Panama. Texas Instrument foresees a considerable cost reduction for its electronic components from the Panamanian plant which would make it better able to compete with Japanese watch, minicomputer, and electronic calculator producers for the United States and for foreign markets. Texas Instrument assembles such items in the United States and also makes other electronic components as well.

Texas Instrument lays off U.S. employees as a direct result of its new Panamanian facility, but it may avoid the layoff of assembly and other component employees in the United States because of the cost reduction permitted by the foreign facility. Are U.S. jobs eliminated or preserved in such case? I submit that the language of the existing section creates an unnecessary and unfulfillable burden on OPIC in deciding eligibility and I would hope that it would be replaced with the more general language in the first section.

I favor the extension of preferential consideration for coverage of projects sponsored by small business. I do not believe, however, it is necessary or appropriate to set a minimum share for small business, as is proposed in section 101(e)(2).

I do not favor extending the eligibility for OPIC coverage to already established foreign investment. I perceive OPIC as a mechanism to expand U.S. investment abroad in eligible countries for development purposes. To permit ex post coverage of past investment is unnecessary and may lead to an adverse selection of risks as companies who belatedly fear losses from changes in host country policies rush to cover them through OPIC programs.

Finally, there are peripheral issues in country and company eligibility in the bill—the issues of human rights, foreign corrupt practices, and the environmental impact of the covered foreign investment—which I do not consider appropriate. Each of these social responsibility areas is vague and arbitrary and complicates the application of economic criteria for OPIC coverage. Furthermore, there is no evidence at all that the inclusion of such criteria in OPIC decisionmaking alter the behavior of the affected countries or companies.

Thank you, Mr. Chairman.

[Mr. Hawkins' prepared statement follows:]

PREPARED STATEMENT OF ROBERT G. HAWKINS

Mr. Chairman, I am Robert Hawkins, Professor of Economics and Chairman of the International Business Department at the New York University Graduate School of Business Administration. For several eyars, I have been engaged in research on the domestic economic impact of American foreign direct investment, and am honored to have the privilege to present my views on S. 2186 which would extend and slightly alter the mission of the Overseas Private Investment Corporation.

There are two types of questions which must be considered: one is whether OPIC is worthwhile or serves as useful national purpose at all: the second concerns the specific form and mission for OPIC embodied in the bill. The general question is considered first.

IS OPIC DESIRABLE IN PRINCIPLE

From an economic perspective, OPIC insurance, guarantees or credits may be viewed as a means of socializing or spreading the risk of loss of capital due to the political and public order acts covered in the bill. This provides an American multinational firm with additional alternatives in the risk-return mix which it faces in investing in eligible countries. More specifically, the company, for a slightly lower expected rate of return represented by the insurance premium and other fees, is able to insure against highly uncertain, low probability losses of massive magnitudes.

This spreading of the risk of catastrophic loss may or may not involve an ndirect subsidy of the foreign investor. On the one hand, if the number of risks are sufficiently large and the premium and other charges for insurance and guarantees adequate to cover loss experience, then OPIC simply serves a catalytic role in providing self-supporting insurance on a mutual basis, as any mutual in- urance company does. On the other hand, to the extent that the U.S. Treasury, as supplier of capital to OPIC and residual insurer, and a guarantor of the debt f OPIC, provides lower than the market cost of capital on OPIC credits and wer than the full economic cost for the insurance, the foreign investor finds his risk reduced without paying the full cost of that reduction, and an implicit sub- idy is thus provided.

Past and prospective operations of OPIC involve both of these elements—some egree of implicit subsidization and a mechanism for spreading certain types of isk of catastrophic loss. It is almost impossible to establish unequivocally how uch of each will result from the current bill, or even from past operations of PIC. In any event, the result of both expanding the risk-return alternatives or U.S. companies and subsidizing the reduction of risk or cost of credit is to ncrease the volume of foreign investment by U.S. companies above the level it ould have achieved without OPIC. This seems to me incontrovertible, at the argin.

This does not imply that *all* foreign investment insured or credits guaranteed y OPIC are net additions. Some companies would have carried out their proj- cts in the absence of OPIC insurance. In such cases, the OPIC coverage does ot alter the flow of foreign investment, and thus does not set up a train of omestic economic consequences. All the same, if the full economic cost of the nsurance is borne by such companies, without implicit subsidy, OPIC serves as n institutional vehicle to provide a service which private companies are unable r unwilling to serve. To this extent, OPIC's activities are economically justifiable ven in cases in which the flow of investment is not affected.

The assessment of whether OPIC is justified revolves not only around whether stimulates additional foreign inevstment by U.S. companies, which is perhaps e most obvious and important concern, but whether it is a cost effective ehicle for spreading the risk of foreign investment which would have occurred ithout insurance. I believe OPIC serves a positive role in both cases, and pport its continuation.

The stimulation of additional U.S. foreign investment through OPIC programs developing countries which are receptive to inward foreign investment has veral national benefits which, in my view, outweigh the costs. Perhaps the ost important benefit is the injection of private American capital and manage- ent into a poor country which seeks to develop economically. The contribution the nation's economic development is desirable in its own right, but the fact at the foreign capital is private and hopefully competitive may lessen a general ndency toward socialization and bureaucratization in many developing untries.

But there are also benefits to the U.S. economy. First, U.S. exports of capital uipment and other inputs are stimulated. Studies have estimated that, on erage, over 50 percent of initial investment capital in LDC's by U.S. companies e expended on equipment and materials from the United States. Other studies ve estimated that foreign affiliates of U.S. companies in some developing untries import as much as 20 percent more imports from the United States an locally-owned or non-American affiliates in the same industry. Thus, the fect of stimulating exports, to which the current bill gives considerable atten- on, is significant, and contributes to production and employment creation in e United States.

A potentially negative aspect of foreign investment expansion due to OPIC erations occurs when an American firm sets up foreign production to serve foreign or domestic market which could be, and has been served from U.S. oduction facilities. When this occurs, lost domestic jobs and output are likely exceed the gains from additional U.S. exports of capital equipment and ports. This is the continuing fear and objection of organized labor in the ited States, since the jobs lost are often those of unionized production workers.

Despite a decade of research, writing and argumentation on the domestic "jobs effect" of foreign direct investment to which I have been a contributor, the debate is not resolved and is not likely to be because the available statistical methodology and information is not sufficiently refined to yield definitive and unambiguous answers. My personal view is that the "job displacement" effect of the foreign operations of U.S. companies is rather small, and that the benefits of relatively unfettered foreign investment considerably outweigh the costs.

I hold this view because I believe that a considerable majority of U.S. foreign direct investment, especially in manufacturing, is defensive in nature, and made in response to perceived competitive thrusts of foreign companies. In almost no manufacturing industry do American-based companies have an unequivocal technical and competitive lead over European and Japanese companies. This is emphatically true in the-heavy manufacturing industries. This effective competition from foreign companies, combined with relatively liberal import policies in the OECD countries, make production costs a critical element in international competitiveness. My view is that much of the foreign expansion of U.S. company manufacturing and assembly facilities in the 1970s were a response to competition, and involved an attempt to reduce production costs to maintain market share on a world-wide basis, which would have eroded even further than it did if supply from the United States was the only alternative.

If this view is substantially accurate, and I submit that the weight of the evidence supports it, then the loss of domestic production jobs cannot be mainly attributed to increased foreign production by U.S. companies. The jobs would likely have been lost anyway to foreign expansion by Japanese and European competitors of U.S. companies. It is the increased competition that is the culprit, not the decisions of American companies to produce abroad, which was a response to that growing competition.

While there may be some modest gross displacement of domestic output and employment by foreign direct investment, that investment in developing countries eligible for OPIC coverage, and actually covered by its programs, is a minute share of total foreign investment. Further, it tends to be more concentrated in extractive and refining projects than foreign investment in general, and thus with lower than average domestic employment implications, if they exist at all. I am of the view that the foreign investment covered by OPIC programs have trivial adverse domestic employment effects, and the positive economic aspects far outweigh the negative.

There is one additional general point which appears to favor the continuation of OPIC. Changes in host government policies which affect the convertibility of currencies by U.S. investors, or involve nationalization or confiscation of insured U.S. company investment, brings an agency of the U.S. Government directly and immediately into the dispute. While this may complicate legal and jurisdictional issues, it may also serve as an additional deterrent in some instances to arbitrary and capricious policy changes by host governments. If the existence of OPIC thereby contributes to a more stable policy environment in eligible host countries, this should be viewed as a positive contribution to both United States and host country economic interests.

SPECIFIC PROVISIONS OF THE PROPOSED LEGISLATION

I turn now to the questions of, if OPIC is to be extended, are the proposed form and mission appropriate. At the outset, I can state that I favor most provisions of S. 2186. There are however, several provisions which I do not endorse or consider unnecessary. I will identify these and explain my reasons below. First, however, I should indicate a degree of ambivalence or indifference on some aspects of the bill.

The intent to turn OPIC into a free-standing government corporation is desirable, but not essential. It would clean up the organizational structure, make financial lines more clear cut, and perhaps divorce OPIC from some of the more complex aspects of development assistance. But I am equally convinced that the life of OPIC should not rest on this issue.

Lifewise, I am ambivalent over the issue of who should be chairman and co-chairman of the OPIC Board (Section 103(a)). I doubt that the administration of OPIC programs would be affected by the order, and the proposed elevation of the U.S. Trade Representative to chairman would be largely symbolic. In addition, the removal of the co-insurance requirement (Section (107)) and the change in the definition of "eligible investor" (Section (1108)) are not major changes, and would have little overall impact on OPIC's operations.

FOCUS ON EXPORT STIMULATION

The draft bill and Senator Javit's introductory statement give heightened emphasis to the export stimulus effect of OPIC guarantee and insurance activities. This is an unnecessary and misleading emphasis. First, foreign affiliates of U.S. companies have a natural tendency to source more capital equipment and material inputs from the United States than the non-U.S. companies, because of the existing information on and supply relationships with U.S. companies. In this sense, the focus is unnecessary. Second, rigorous criteria for export stimulus considered in insuring or guaranteeing specific projects may exclude projects which are more efficient and meaningful for the development of the host country. Third, elevation of the export stimulus criterion will bias applications from companies, and engender additional administrative burdens on applicants to "prove" that the export criterion is met, even if on non-economic and inefficient terms. All of these seem to be unnecessary, and are likely to result in only very modest net export effects for the United States.

INELIGIBILITY OF PROJECTS RESULTING IN LOSS OF DOMESTIC JOBS

Sections 101 (k–1) render ineligible for OPIC programs any project which would significantly reduce the number of the investor's U.S. employees, or adversely affect United States employment in general. I oppose this provision as involving a criterion which is both too vague and too precise and rigid, and a criterion which is largely impossible to apply. OPIC already attempts to consider domestic employment affects among the several criterion it applies in deciding eligibility of specific projects. To further require the OPIC staff to determine whether a project "is likely" to cause a reduction in domestic employment, the investor is placing a burden of proof on the staff which it cannot fulfill in any unambiguous manner.

A hypothetical example will illustrate the points. Suppose Texas Instruments (TI) closes a U.S. plant while opening a printed-circuit plant in Panama. TI achieves a considerable cost reduction in its electronic components from the Panamanian plant which will make it better able to compete with Japanese watch, minicomputer, and electronic calculator products, for the United States and foreign markets. TI assembles such items in the United States, and also makes transistors and wafers in the United States.

TI lays off U.S. employees as a direct result of the new Panamanian facility. But it may avoid the lay off of assembly and other component employees in the United States of the cost reduction permitted by the foreign facility. Are U.S. jobs eliminated or preserved? I submit that the language of the existing section creates an unnecessary and unfulfillable burden on OPIC in deciding eligibility. I would hope that it be replaced by more general language requiring that domestic employment effects be among the several considerations in determining eligibility.

ORIENTATION TOWARD FOREIGN INVESTMENT BY SMALL BUSINESS

I favor the extension of preferential consideration for coverage of projects sponsored by small business. I do not believe it necessary or appropriate to set a minimum share for small business as proposed in 101(e)(2). This imposes a certain rigidity upon the staff evaluation of projects, which may allow the size of the firm to supersede other legitimate economic criteria in establishing eligibility. There should be no presumption that small is necessarily better, and to limit the discretion of the staff in establishing eligibility based upon all criteria in any one period may be counter-productive.

OPIC COVERAGE OF EXISTING INVESTMENT

I am not in favor of extending the eligibility for OPIC coverage to already established foreign investment. I perceive of OPIC as a mechanism to expand U.S. investment abroad in eligible countries. From such an expansion flow the expected net benefits to the U.S. and host country economies. To permit ex post coverage of past investments is unnecessary and may lead to adverse selection of risks, as companies who belatedly fear losses from changes in host country policies rush to cover them through OPIC programs. I am unconvinced that the ability to insure potential losses will seriously affect many U.S. company decisions to remain or to disinvest in particular countries.

PERIPHERAL ISSUES IN COUNTRY AND COMPANY ELIGIBILITY

Although addressed toward socially desirable objectives, I am convinced that several criteria specified in the bill pertaining to country or company eligibility are not appropriate for the effective administration of OPIC programs. Among these are the human rights issue for host countries and the Foreign Corrupt Practices Act and environmental impact criteria for projects and companies covered. Each of these tangential areas of "social responsibility" are vague and arbitrary, and complicate the application of economic criteria for OPIC coverage for which the organization was originally formed. Furthermore, there is no evidence at all that the inclusion of such criteria in OPIC decision-making alter the behavior of countries or companies, and indeed at least the corrupt practices criterion is redundant. I favor their elimination from the bill.

Senator SARBANES. Mr. Denison?

STATEMENT OF RAY DENISON, DIRECTOR OF LEGISLATION, ACCOMPANIED BY ELIZABETH JAGER, ECONOMIST, AFL–CIO, WASHINGTON, D.C.

Mr. DENISON. Thank you, Mr. Chairman.

The AFL–CIO opposes S. 2186. This bill, we believe, would pledge U.S. Treasury resources for insurance for international companies and banks in foreign countries against the risk of war, expropriation, currency inconvertibility, and civil strife. In addition, OPIC would be granted independent status and a mandate to expand its lending and other financing arrangements for many developmental purposes. The bill also changes the thrust of OPIC from one of encouraging internal development of friendly less-developing countries to encouraging trade.

Thus, the bill would have U.S. taxpayers subsidize a gigantic export of what America needs most—jobs, technology, and capital—by changing the mandate and extending the scope of authority for OPIC. OPIC encourages U.S. firms to invest abroad by removing their risks and therefore influences their decision against making investments of similar magnitude in the United States. OPIC therefore creates disincentives for U.S. investment at home and disincentives for U.S. exports. It encourages more imports.

The continuation and expansion of OPIC would aggravate the economic problems now facing the U.S. economy. Unemployment reached 8.2 million in May and is growing worse. Capital investment is lagging so much that tax cuts are being proposed to encourage U.S. investments. Imports are so great that adequate funds to pay trade adjustment assistance to workers displaced by imports are not available. Imports add to the impact of recession on jobs and production in cities and towns across the country.

The AFL–CIO believes that instead of extending and strengthening OPIC, it should be terminated as soon as possible. An analysis of OPIC insured projects shows that OPIC insures investments by U.S. firms abroad that could have been made in the United States. Some of the projects have their total output exported to the United States; for example, the AVX Ceramic Corp. plant in El Salvador. See the attachment and other illustrations attached to our testimony.

Senator SARBANES. The full statement and the attachment will be included in the record.

Mr. DENISON. Thank you, Mr. Chairman.

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In 1973, OPIC insurance for investments by giant global firms and banks led to congressional concern about the program. Job exports in textiles, electronics, and steel—industries where U.S. firms and workers have continued to suffer—were insured and continue to be insured with the backing of the U.S. Government.

In 1973, the AFL–CIO adopted a policy position opposing OPIC for (a) insuring huge banks and firms—Citibank, Chase Manhattan, Morgan Guaranty, Ford, et cetera, and for (b) exporting jobs in electronics, shoes, textiles, et cetera, and urged that it be terminated.

In 1974, Congress sought to have OPIC transferred to private insurers, an appropriate goal for an institution which claims to promote private enterprise. This goal was not met.

As the AFL–CIO explained in a letter in 1977 when reauthorization was under consideration:

> OPIC has continued to insure foreign factories that make textiles. auto parts, sheet glass, leather goods, steel bars and other types of production in low-wage countries. This insurance has continued even though Congress directed OPIC to stop exporting jobs. The United States economy is now paying the price.

OPIC was reauthorized in 1978 with provisions for more supervision and more emphasis on foreign aid for the neediest countries. OPIC was made subject to requirements that OPIC help poor people in poor countries, help small business, and be "developmental." Small business, it seems, is defined by OPIC as any company not in the Fortune 1000. Insurance for New York banks and multinational oil companies was made more difficult but not impossible. In 1979, the International Development Cooperation Administration became the supervisory agency.

Now, OPIC is pushing to reassert its independence, a seemingly incongruous goal for a government agency. Further, it seeks authority to insure banks and firms, whether foreign or U.S.-based, regardless of size, in virtually any country which OPIC determines is appropriate.

OPIC is a subsidy. The fact that private insurers will not assume the risks without government backing clearly makes this program a subsidy. Although OPIC currently reports a surplus, they have not paid off claims in some cases, and the U.S. Government is ultimately responsible for OPIC defaults.

OPIC is still insuring companies which export back to the United States and cost jobs. The attached list of OPIC projects in 1978 and 1979, after the Congress tried to curb the impact on the United States, shows that job-destroying imports have continued and that giant banks and firms have been major beneficiaries of the OPIC operations. Furthermore, the companies on the list include companies now laying off U.S. workers.

In my statement, I detail what we feel would be aggravations to an already bothersome program. I will leave those to the committee members to explore. All of these provisions enumerated in the testimony add up to a massive grant of power to a single government agency to run an insurance and investment business. It empowers OPIC to use its own judgment of what will promote trade, investment, and balance-of-payments objectives and the development of other countries.

The AFL–CIO calls to this committee's attention the past failure of OPIC to live up to statutory mandates. We believe that U.S. job losses will be much greater if this agency is allowed to continue or expand.

The AFL–CIO urges this committee to reject this grant of excessive authority and to review the actual facts of what OPIC has already done in the past 10 years. We believe a factual review will support our position that this taxpayer-backed insurance business should be ended because it does not promote national interest. Thank you.

Senator Sarbanes. Thank you, Mr. Denison.

Gentlemen, I want to thank you for some helpful testimony. I have just a few questions.

First of all, Mr. Goodfellow, I think your testimony is very helpful in bringing the focus back as to where the preponderance of OPIC activity is. In other words, is Mr. Myers' testimony earlier today typical or atypical of OPIC insured or guaranteed projects abroad? I think most people would regard his activities as seeming to meet a lot of worthwhile objectives. The question is, is that the norm for all OPIC projects, or is it something else?

As I understand your testimony—and I want to turn to the tables, which I do not think you discussed. Table 1, those are the 10, listed 1 through 10 recipients of OPIC insurance in fiscal 1978–79; is that correct?

Mr. Goodfellow. Yes. These 10 companies during those 2 fiscal years represent 48 percent of OPIC's insured investment.

Senator Sarbanes. Is that analysis developed further in this report?

Mr. Goodfellow. Yes, it is; it is in more detail. The report that is included in the record covers the years 1975 and 1976.

Senator Sarbanes. I see.

Mr. Goodfellow. What it indicates is that the concentration both in countries and in industries has remained more or less constant over the years. The largest multinational corporations have continued to be the major beneficiaries. Enterprises like Mr. Myers, small businesses, in spite of efforts of OPIC to encourage small businesses, have been the exception rather than the rule. The major users have continued to be the largest multinational corporations.

Senator Sarbanes. Do you perceive an effort on the part of OPIC to encourage small business?

Mr. Goodfellow. Yes. As I said, I do perceive that. One of the problems of course, is that the largest multinational corporations have the capital, the technology, as well as the experience and information to go abroad. I am sure if one looks at the pattern of U.S. overseas investment that, similarly, you will find the largest multinational corporations having the vast majority of the investment.

Senator Sarbanes. Mr. Denison, the examples you give in your attachment, are these all the OPIC projects insured in 1978, or certain selected ones? What is the basis of your selection?

Mr. Denison. These are projects given by President Llewellyn in his testimony to the House Foreign Affairs Committee in 1979. We just picked up the examples he gave to the committee and attached them here.

Senator Sarbanes. So, this does not represent some selection process on your part.

Mr. Denison. Not on our part, no.

Senator **Sarbanes**. You are just, for illustrative purposes, presenting what he submitted; is that correct?

Mr. **Denison**. Yes, sir.

Senator **Sarbanes**. Mr. Hawkins, I had a question concerning your comments in your prepared testimony. I take it, it is your view that we are not losing domestic production jobs when these companies go abroad because we would lose those jobs in any event to foreign competition; is that correct?

Mr. **Hawkins**. That is essentially correct. A significant share of the jobs would have been lost anyway. In few narrowly defined industries does the United States have an unequivocal technological and competitive leadership.

Senator **Sarbanes**. Are you not giving American management the easy way out by that analysis? By that analysis, American management protects their position by going into foreign production instead of perceiving that in order to protect their position, they are going to have to improve the nature of their production in this country in order to be able to compete internationally.

Mr. **Hawkins**. It might be viewed as an easy way out, but it seems to me that any company must assess how it can retain and increase its share of the worldwide market. There are several alternative actions, some of which may be open and some foreclosed to any particular company. One, under discussion here, is to break up the production process and move certain activities into areas where there are, for example, low wages, where there is a ready availability of raw materials, or production is closer to the market. Another way of attempting to retain a competitive position is to increase R. & D. spending in the United States, gain a competitive edge thereby to retain world market share by exporting from a U.S. base.

Senator **Sarbanes**. The easier we make it on the company to shift its base abroad, the less motive there is for the company's management to improve its productive base in this country because, from its point of view, it can cover itself. Is that not correct?

Mr. **Hawkins**. That may or may not be true. I am fairly convinced that no American company enjoys or prefers to expand production abroad rather than in the United States. There is fairly clear evidence that there is an inertia and an incentive in the form of ease of management, better communication and the like to expand production in the United States and serve the rest of the world's market by export.

So, there has to be some push in order to get a domestic company to make an investment decision to open or expand foreign production facilities.

That being said, I am not arguing that all American companies have responded to foreign competition in an optimal way. It seems to me that the U.S. steel industry, for several decades, has not responded to clear, long-term competitive threats, and still has not done so. There are other examples as well.

I am not necessarily defending the overall superiority and effectiveness of American management. Yet, I am also not saying that the foreign production alternative is an indication of inferior management. In many instances it is going to be the only alternative of retaining world market share, short of rather substantial protectionist policies by the United States. I do not believe that is a long-term viable alternative.

One final point. I do not believe that the activities of OPIC in this entire scenario, including all foreign investment of U.S. companies, is a very large part. It is not a major and significant element in the context of U.S. jobs, import competition, lost foreign markets, and the like.

Senator **Sarbanes.** Would the other members of the panel care to comment?

Mr. **Denison.** Yes; could I respond, Mr. Chairman?

I think what is lost here is the fact that when an American company goes abroad and locates, he is taking with him his markets, the whole marketing process. The Japanese may move in, the Germans may move in if that area is not exploited, theoretically; but in fact, when these corporations go into these areas for the purposes of utilizing them—exploiting them, if you will—they go in with the knowledge that the product has its market here in the United States. One case we list, Black & Decker, which happens to be a Maryland firm, is laying off people at this moment, but it has received OPIC insurance.

In that case, Black & Decker went into India and yet, a good deal of the products they would produce were sent back to the United States through the Black & Decker marketing arrangements, to the retail establishments in this country that they have. So, there is nothing new that had to be done in that regard.

By the same token, they were utilizing India's policy of an import substitution program wherein that country has said they want industry to be located there, and once located there, they will then diminish, minimize, and cut off any further importation of those products. So, you have two things at work here, a desire by a U.S. company to find lower labor cost if it can, knowing it has its U.S. market here, but also complying with the import policy of another country that says, "Either you locate here or you will never be able to export into this country." So, it is a far more complicated issue than just OPIC.

Senator **Sarbanes.** Mr. Goodfellow?

Mr. **Goodfellow.** Yes, I would concur. I think the argument is not whether or not foreign investment and in particular OPIC-insured foreign investment encourages corporations to move abroad and therefore costs U.S. jobs. I think the argument gets down to a determination of just how many jobs are lost. Both my colleagues have indicated it is a complicated argument. There are a lot of factors; however, again, I think the bottom line is that OPIC does cost U.S. jobs.

Senator **Sarbanes.** Leaving aside for the moment, where the OPIC support goes, would any of the panel perceive any negative aspects to an OPIC-type operation that made possible the sort of activity that Mr. Myers outlined this morning? Were any of you present to hear it?

Mr. **Goodfellow.** Yes, I did. I am not familiar with the details, nor have I been to the project. However, I think the host countries feel that when they are dealing with someone like Mr. Myers, he is more responsive to their needs, to their own considerations, than when dealing with giant corporations like Occidental Petroleum, Gulf Oil, or Chase Manhattan Bank.

Small companies like Mr. Myers' do need certain services that OPIC can offer: insurance services, financing services, sometimes information that OPIC can provide, and technical services. I am not at all convinced that Chase Manhattan Bank, Gulf Oil, or Occidental Petroleum need OPIC. I remain unconvinced that they would not be opening up branch banks in various countries, whether they had OPIC insurance or not. It is a convenience for them. I think OPIC provides a service for them, but I think one has great difficulty arguing that they would not go into these countries without OPIC insurance.

Unfortunately, OPIC has benefited just the people who do not need OPIC. People like Mr. Myers, whom we should be encouraging to invest abroad, get a very small part of the OPIC overall program.

Senator SARBANES. Well, as you know, Chairman Church has asked the GAO to do a very careful study of the OPIC activities, and I would expect that study would enable us to make some judgments in the nature of where the OPIC activity goes and who benefits from it.

Gentlemen, we thank you very much. Ms. Jager, did you want to add anything to what has been said? I did not know whether you wanted to speak or not.

Ms. JAGER. I did not want to intervene, Mr. Chairman. I wonder if it would be possible to place into the record tables I have just received that I think might be useful. They show what data are available to the U.S. Government, some rather large changes in import penetration in the United States from 1972 to 1977, and a ranking of major job losses from 1978 to 1979. I offer these because I think the emphasis that is placed on trade in today's world somehow has tended to create the impression that exports are the only part of trade that seems very meaningful, and we seem to have lost sight of an increasing penetration of this market. While OPIC will not be responsible for all of it, I think the idea of adding to this growing impact on the U.S. manufacturing industry is almost ignored in most discussions. We have had lots of statements by business corporations and increasingly by economists about the expansion of exports in the world market, but there does not seem to be a recognition that over time, imports have cost so much of this market that we need to reassess why we should insure people abroad when we have so many problems at home.

Senator SARBANES. We will include those tables in the record folowing Mr. Denison's statement. Thank you, very much.

Ms. JAGER. Thank you, Mr. Chairman.

[Mr. Denison's prepared statement follows:]

PREPARED STATEMENT OF RAY DENISON

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Thus, the bill would have U.S. taxpayers subsidize a gigantic export of what merica needs most—jobs, technology and capital—by changing the mandate nd extending the scope of authority for the Overseas Private Investment Cororation. OPIC encourages U.S. firms to invest abroad by removing their risks nd therefore influences their decision against making investments of similar agnitude in the United States. OPIC, therefore, creates disincentives for U.S. nvestment at home and disincentives for U.S. exports. It also encourages more nports.

The continuation and expansion of OPIC would aggravate the economic problems now facing the U.S. economy: unemployment reached 8.2 million in May and is growing worse. Capital investment is lagging so much that tax cuts are being proposed to encourage U.S. investment. Imports are so great that adequate funds to pay trade adjustment assistance to workers displaced by imports are not available. Imports add to the impact of recession on jobs and production in cities and towns across the nation.

The AFL–CIO believes that instead of extending and strengthening OPIC, it should be terminated as soon as possible. An analysis of OPIC insured projects shows that OPIC insures investments by U.S. firms abroad that could have been made in the United States. Some of the projects have their total output exported to the United States, for example, the AVX Ceramic Corporation plant in El Salvador, (see attachment).

In 1973, OPIC insurance for investments by giant global firms and banks led to Congressional concern about the program. Job exports in textiles, electronics and steel—industries where U.S. firms and workers have continued to suffer—were insured and continue to be insured with the backing of the U.S. Government.

In 1973 the AFL–CIO adopted a policy position opposing OPIC for (a) insuring huge banks and firms—Citibank, Chase Manhattan, Morgan Guaranty, Ford, etc., and for (b) exporting jobs in electronics, shoes, textiles, etc. and urged that it be terminated.

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"OPIC has continued to insure foreign factories that make textiles, auto parts, sheet glass, leather goods, steel bars and other types of production in low-wage countries. This insurance has continued even though Congress directed OPIC to stop exporting jobs. The United States economy is now paying the price."

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Now, OPIC is pushing to reassert its "independence"—a seemingly incongruous goal for a government agency. Further, it seeks authority to insure banks and firms—whether foreign- or U.S.-based, regardless of size—in virtually any country which OPIC determines is appropriate.

OPIC is a subsidy. The fact that private insurers will not assume the risks without government backing clearly make this program a subsidy. Although OPIC currently reports a surplus, they have not paid off claims in some cases, and the U.S. Government is ultimately responsible for OPIC defaults.

OPIC is still insuring companies which export back to the United States and cost jobs. The attached list of OPIC projects in 1978 and 1979—after the Congress tried to curb the impact on the United States—shows that job-destroying imports into the United States have continued and that giant banks and firms have been major beneficiaries of the OPIC operations. Furthermore, the companies on the list include companies now laying off U.S. workers.

S. 2186 would aggravate these problems:

1. "*Independent agency*": The bill makes OPIC independent of other AID agencies. The "independent" insurance of giant firms and banks led to the original complaints against OPIC. Making it independent would lead to a repetition of these problems. The independent status of a government agency is inappropriate in our view. Government agencies should work in accordance with criteria and under general policy direction.

2. *Trade and Capital Promotion Agency:* S. 2186 changes the OPIC mandate. OPIC insurance and direct lending are to be used to promote trade, investment and help the balance of payments and for other purposes. We do not believe that OPIC can accomplish this goal, because as we have stated above, OPIC is a disincentive for U.S. exports, an incentive for the transfer of investment abroad and the encouragement of imports into the United States.

3. *Self policing by OPIC:* While the bill provides OPIC discretion to deny investment help or insurance if OPIC believes the project will significantly reduce that investor's own employment in the United States or substitute foreign production for U.S. production, such curbs have been attempted in the past without success.

The attached programs and past experience show that OPIC is blind to the implications of foreign investment for U.S. jobs. An illustration of potential job exports is OPIC's enthusiastic support for extending OPIC to China. The President of OPIC told a press conference in Chicago last month, that despite labor opposition he expects that if all goes well OPIC would be insuring investment in China by January 1981.

Such operations will create more U.S. imports—not exports.

Business Week points out that China is attracting industry slowly to produce behind its barriers and to pay the cost of exporting. The article says: " . . . the Chinese are looking for ways to hold down or offset costs under a variety of 'compensation trade' arrangements. In the past three years the Chinese have signed hundreds of deals with foreign companies that supply machinery or materials; in return, these companies have obtained supplies of products on favorable terms for sale in world markets."[1] OPIC is not needed for Chinese development. China has $26 million in unused foreign credits.

4. *Help to rich countries and communist countries:* OPIC no longer would emphasize helping poor countries or non-communist countries. The bill states that any "less developed friendly country" is eligible for OPIC insurance. No longer would $1,000 per capita income cut-offs be applied. Thus, the rich or highly industrialized "developing countries"—whether Saudi Arabia, Brazil or Mexico—would presumably be eligible. Furthermore, investments in communist countries, whenever they are deemed "friendly" could qualify. The pressure to extend OPIC to China has led to the introduction of legislation noted above. The idea of insuring private investment in countries that do not believe in private enterprise seems incongruous.

The United States Treasury could thus be put as the ultimate guarantor behind all types of investments—even those for export to the United States—in China or any other so-called developing country as long as an "independent" government agency approves the deal.

5. *OPIC could insure foreign corporations:* S. 2186 allows OPIC insurance and other benefits to corporations in other countries as long as U.S. citizens or corporations have majority control of the corporations. Thus, OPIC could insure operations by foreign affiliates of U.S. corporations and encourage their expansion in third countries. We think this is unwarranted and inappropriate as well as potentially costly to the Treasury.

6. *OPIC could insure foreign investors in the United States:* Section 108(c)(2) allows OPIC insurance to foreign investors in the United States as long as U.S. citizens have "significant interest" in the corporation.

7. *Existing Investments can be insured:* The bill allows OPIC to insure existing investments. Thus OPIC would not necessarily promote development, trade or investment—but merely expanding U.S. obligations for investment already in place.

8. *Extra risks would be absorbed:* The bill insures loss due to war, revolution, insurrection or civil strife. This adds an undefined concept of "civil strife" to the already potentially expensive possibilities of insurance for takeover and destruction in a rapidly changing world environment.

These provisions add up to a massive grant of power to a single government agency to run an insurance and investment business. It empowers OPIC to use its own judgment of what will promote trade, investment, balance of payments objectives and the development of other countries.

The AFL–CIO calls to this Committee's attention the past failure of OPIC to live up to statutory mandates. We believe that U.S. job losses will be much greater if this agency is allowed to continue or expand.

The AFL–CIO urges this Committee to reject this grant of excessive authority and to review the actual facts of what OPIC has already done in the past 10 years. We believe that a factual review will support AFL–CIO's position that this taxpayer-backed insurance business should be ended because it does not promote national interest.

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[1] Business Week, May 26, 1980: China. No great leap forward for U.S. exports.

OPIC Projects Insured—1978

Company/Country: Antakli & Vega Industries—Saudi Arabia. Project: Manufacture insulating glass. Markets Served (disposition of output): Host Country 85 percent; Other Arab Countries 15 percent. Total Insured Investment This Investor: $209,557. Primary Developmental Effects: Technical employees will receive training in the United States or Europe. Output will reduce bottlenecks in expanding construction industry. The project will generate 26 jobs. Local investment in this project totalled 96 percent of the total financing. The initial local expenditure resulting from the project will total $1,287,000 and it will generate $36,000 per annum in government revenues.

Company/Country: Avery Laurence, Ltd.—Indonesia. Project: Manufacture oil and gas processing equipment. Markets Served (disposition of output): Host Country 94 percent; Other Asian Countries 6 percent. Total Insured Investment This Investor: $882,000. Primary Developmental Effects: This project will provide training for Indonesians in the oil industry and create 215 new jobs. It will save the country $4.6 million in foreign exchange each year and generate $482,000 in annual government revenue.

Company/Country: AVX Ceramics Corporation—El Salvador. Project: Assembly of ceramic capacitors. Markets Served (disposition of output): United States 100 percent. Total Insured Investment This Investor: $3,810,600. Primary Developmental Effects: This project will employ 440 workers, 85 of which will be in the management/professional ranks, and include a program to train Salvadorean employees to take full charge of operations within two years of startup. The project will procure some supplies and support equipment locally, and generate $517,750 in net foreign exchange earnings annually.

Company/Country: Black & Decker—India. Project: Manufacture of electric tools. Markets Served (disposition of output): United States 15 percent; Other exports 20 percent; Host Country 65 percent. Total Insured Investment This Investor: $198,000. Primary Developmental Effects: This joint venture project will manufacture electric tools for the local market at lower prices and higher quality than now available. It will employ 85 local workers who will receive training as machine operators. The project will procure much of its materials locally.

Company/Country: Carrier Corporation—Indonesia. Project: Manufacture of air conditioners. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $2,610,000. Primary Developmental Effects: This project will rely heavily on local suppliers for product inputs and should save Indonesia $1,958,000 per year in foreign exchange. It will create 124 new jobs and the project will provide for in-country and overseas training of local personnel.

Company/Country: Chase International Investment Corp.—Cameroon. Project: Integrated forestry wood and plywood operation. Markets Served (disposition of output): Europe 80 percent; United States 20 percent. Total Insured Investment This Investor: $450,000. Primary Developmental Effects: This project will utilize Cameroon's vast forest reserves through a program that includes logging and wood processing activities while at the same time undertaking forest protection and reforestation programs. It will provide direct employment for 650 workers and an additional 600 jobs in supporting railroad and port facilities.

Company/Country: Chemtex Fiber, Inc.—Taiwan. Project: Manufacture textile machinery. Markets Served (disposition of output): Host Country 25 percent; Other LDCs 75 percent. Total Insured Investment This Investor: $90,119. Primary Developmental Effects: Project will transfer technology to local companies manufacturing synthetic fiber machinery. It will create 142 jobs, half of which are managerial or professional, and provide for overseas training of professional employees. The project is 96 percent locally owned.

Company/Country: Coca Cola Export Corporation—Swaziland. Project: Sugar processing. Markets Served (disposition of output): United States 9 percent; Europe 40 percent; Host Country 4 percent; Other 47 percent. Total Insured Investment This Investor: $1,759,500. Primary Developmental Effects: This project will increase Swaziland's sugar processing capacity. Total project investment is $130,000,000 of which international financial institutions and foreign governments will contribute $84,000,000. The project will establish a training center for local employees. Total employment impact will be over 2,000 jobs. The project includes important infrastructure elements such as roads, and irrigation canals in addition to providing housing for 2,000 workers.

Company/Country: Collins Radio—Korea. Project: Manufacture of microwave equipment. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $585,000. Primary Developmental Effects: This is a joint venture project which will result in an initial procurement expenditure of $1,587,000. In addition it will create 61 new jobs and plans call for extensive training of key personnel in the United States. It should have a net foreign exchange benefit of $1,716,000 annually.

Company/Country: Del Monte International, Inc.—Greece. Project: Can and process foods. Markets Served (disposition of output): Europe 100 percent. Total Insured Investment This Investor: $3,247,290. Primary Developmental Effects: This project is located in a rural area where it will encourage local agricultural production. Supervisory personnel will be trained overseas and local farmers will be introduced to new farming techniques. It should increase small farmer incomes as well as earn the host country $1,622,000 in foreign exchange yearly.

Company/Country: Designatronics, Inc.—Haiti. Project: Manufacture electronic components. Markets Served (disposition of output): United States 100 percent. Total Insured Investment This Investor: $217,929. Primary Developmental Effects. This project will create 518 new jobs and will provide on-site training for all employees. The management and professional positions will all be staffed by Haitians. The project will also earn Haiti $175,000 annually in foreign exchange and increase government revenues by $30,000 per annum.

Company/Country: Digital Equipment Corporation—Taiwan. Project: Manufacture integrated circuits. Markets Served (disposition of output): United States 100 percent. Total Insured Investment This Investor: $78,055. Primary Developmental Effects: This project will create 150 new production jobs and five positions in the technical ranks. It includes provision for on the job training for both technical and production personnel. It will also provide a net foreign exchange benefit of $263,000 per annum.

Company/Country: Dresser Industries—Egypt. Project: Market drilling fluids. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $1,350,000. Primary Developmental Effects: Projects will create 42 new jobs and help Egypt develop its petroleum reserves. Project includes a training program for oil field drilling engineers. Initial local expenditure will be $411,000 and annual government revenues will be $55,000.

Company/Country: Dresser Industries—Saudi Arabia. Project: Manufacture drilling fluids. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $646,875. Primary Developmental Effects: This project will manufacture, process and sell drilling mud products and chemicals to the domestic oil industry. These products are currently being imported. The project initially will employ eight local workers and will employ more as they are trained.

Company/Country: Dynalectron Corporation—Saudi Arabia. Project: Service aviation machinery and heavy equipment. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $135,000. Primary Developmental Effects: This joint venture is geared to meet host country efforts to upgrade the availability of technical services and is expected to improve the quality of technical services available from local firms. One project already committed is the installation of a telephone switching system in Jubail.

Company/Country: The Foxboro Company—Korea. Project: Manufacture process control equipment. Markets Served (disposition of output): Host Country 95 percent; Far East 5 percent. Total Insured Investment This Investor: $918,750. Primary Developmental Effects: This project will result in annual local procurement of $500,000 a year and its location in a new industrial complex should attract other industries to the area. It will create 421 jobs, 95 of which will be management or technical. Of these employees, 20 will be trained in the United States. The project will provide subsidized meals and housing.

Company/Country: Gillette Company, Inc.—Yugoslavia. Project: Manufacture razor blades. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $177,525. Primary Developmental Effects: This joint venture produces razor blades and metal tape measures. It saves foreign exchange by reducing imports of razor blades and generates domestic employment.

Company/Country: Gulf Oil Corporation—Yugoslavia. Project: Manufacture low density polyethylene. Markets Served (disposition of output): Host Country 50 percent; Other Asian Countries 50 percent. Total Insured Investment This Investor: $4,977,000. Primary Development Effects: This project will produce 75,000 tons of polyethylene per annum, provide employment for 180 local workers, upgrade their skills and provide health care and medical facilities. The project is expected to have a favorable $26.5 million net annual effect on Taiwan's foreign exchange balance.

Company/Country: Harvey Probber—Haiti. Project: Manufacture furniture. Markets Served (disposition of output): United States. Total Insured Investment This Investor: $289,800. Primary Developmental Effects: This project will combine traditional Haitian weaving skills with modern U.S. design, management and marketing techniques. The project has created an estimated 400 jobs and many of the workers have received training in the use of modern machinery and management skills. This project also promotes the Government's efforts to encourage new export industries.

Company/Country: Hooker Chemical Corporation—Singapore. Project: Manufacture resins and molding. Markets Served (disposition of output): Host Country 56 percent; Other LDCs 44 percent. Total Insured Investment This Investor: $5,760,000. Primary Developmental Effects: This project will create 45 new jobs—16 of which will be in the professional or managerial ranks—and also includes training local personnel in overseas facilities. The project will earn $2,750,000 annually in foreign exchange.

Company/Country: Hormel International Corporation—Dominican Republic. Project: Meat processing. Markets Served (disposition of output): Host Country 90 percent; Other Caribbean Countries 10 percent. Total Insured Investment This Investor: $405,000. Primary Developmental Effects: This project will improve the quality and quantity of meat available to local citizens as well as provide training in hygienic meat processing for 51 new employees. The project is 79 percent owned by local citizens and is expected to save the Dominican Republic $390,000 per annum in foreign exchange.

Company/Country: Hoyt and Worthing Tanning Corp.—Haiti. Project: Tannery. Markets Served (disposition of output): United States. Total Insured Investment This Investor: $360,000. Primary Developmental Effects: This project provides eight new jobs and includes training technical personnel at the company's U.S. facility. This project will provide a new export industry to Haiti and earn $800,000 annually in foreign exchange.

Company/Country: Hytronics Corporation—Costa Rica. Project: Manufacture and assembly of electronic components. Markets Served (disposition of output): United States 100 percent. Total Insured Investment This Investor: $81,000. Primary Developmental Effects: This project will add 205 jobs to the Costa Rican economy. Workers will be trained in the operation and maintenance of basic assembly machines. The project will increase foreign exchange earnings by $190,000.

Company/Country: Intel Corporation—Malaysia. Project: Assemble electrical components. Markets Served (disposition of output): United States 50 percent; Other countries 50 percent. Total Insured Investment This Investor: $2,493,000. Primary Developmental Effects: This project will create 815 new jobs, 225 of which will be managerial or technical. All line managers and supervisors will be locally recruited and trained. The plant is located on reclaimed swampland and includes a cafeteria for local employees. The project is expected to provide Malaysia with $4,500,000 in foreign exchange each year.

Company/Country: International Paper Company & Union Camp Corp.—Israel. Project: Corrugated container plant. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $18,000,000. Primary Developmental Effects: This project will provide a lower-priced supply of corrugated shipping containers to the Israeli agricultural community. Management and supervisory production positions are staffed locally through employee development and training. The project is expected to have a net foreign exchange benefit of $20,000,000 per year and create 465 new jobs.

Company/Country: International Telephone and Telegraph Corp.—Brazil. Project: Manufacture telephone equipment and submersible pumps. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $2,700,000. Primary Developmental Effects: This project is located in a relatively underdeveloped region given a high priority for industrial development by the Brazilian Government. It will create 676 new jobs, 76 of which will be managerial (all but two of which will be staffed by local citizens.) The project includes training for personnel in the manufacture of telephone and pump equipment.

Company/Country: Keystone International, Inc.—Korea. Project: Manufacture industrial valves. Markets Served (disposition of output): Host Country 35 percent; Japan 25 percent; Other Asia Countries 40 percent. Total Insured

Investment This Investor: $333,000. Primary Developmental Effects: This project will significantly improve the quality of locally-produced industrial valves. In addition, it will create 56 new jobs, 16 in the technical ranks, and provide training in the United States for local employees. The project will result in net foreign exchange savings by Korea of $1,810,410 each year.

Company/Country: Arthur D. Little, Inc.—Saudi Arabia. Project: Manufacture of prefab concrete components. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $76,788. Primary Developmental Effects: This project will be the first of its kind in Saudi Arabia and will greatly alleviate housing shortages in that country. It will provide training in the manufacture and assembly of prefab buildings for 730 local employees. The project is 82 percent owned by local citizens.

Company/Country: Motorola, Inc.—Israel. Project: Manufacture communications equipment. Markets Served (disposition of output): Host Country 70 percent; Iran and Africa 30 percent. Total Insured Investment This Investor: $5,850,000. Primary Developmental Effects: This project is expected to result in higher-quality, lower-cost products for consumers. It will also increase Israel's foreign exchange by $630,000 annually.

Company/Country: Motorola, Inc.—Korea. Project: Manufacture semi-conductor devices. Markets Served (disposition of output): Asia Pacific Region 37.5 percent; U.S. 25 percent; EEC 37.5 percent. Total Insured Investment This Investor: $1,575,000. Primary Developmental Effects: This project will create 670 new jobs and result in the overseas training of host country technicians and engineers. Initial local expenditures will total $1.2 million and annual foreign exchange earnings are projected at $9.4 million.

Company/Country: Northville Terminal Corp., Chicago Bridge & Iron Co. and Chase Manhattan Bank—Panama. Project: Oil storage and transshipment facility. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $47,531,000. Primary Developmental Effects: This project, which will facilitate movement of Alaskan oil to the U.S. Gulf and East coasts, is located in one of the poorest and least developed areas in Panama where it is expected to provide a substantial economic boost. It will create 79 new jobs on the facility and 300 more in the surrounding area. Some of the profits from the operation will go to the Panamanian development bank where they will be available for new private sector development projects. Total foreign exchange earnings from this project could top $20,000,000 per year.

Company/Country: Pan American Diamond Corp.—Dominican Republic. Project: Diamond cutting. Markets Served (disposition of output): Europe 90 percent; United States 10 percent. Total Insured Investment This Investor: $450,000. Primary Developmental Effects: This project will cut and polish diamonds for export. It will provide employment and training for 300 local workers and earn the Dominican Republic $700,000 annually in foreign exchange.

Company/Country: Phelps Dodge International Corporation—India. Project: Manufacture wire and cables. Markets Served (disposition of output): Host Country 92 percent; Other 8 percent (non-U.S.). Total Insured Investment This Investor: $450,000. Primary Developmental Effects: This project conforms with India's import substitution program and will improve the quality of locally available cable. Foreign exchange savings will be $872,000 per year. It will employ 62 workers and provide training in the United States for eight technicians.

Company/Country: Phelps Dodge Corporation—Philippines. Project: Manufacture wires and cables. Markets Served (disposition of output): Host Country 85 percent; Taiwan 15 percent. Total Insured Investment This Investor: $767,278. Primary Developmental Effects: This project will reduce the foreign exchange burden of the country's massive electrification program as well as increase the availability of copper wire to local electric appliance manufacturers. It will create 140 new jobs and includes a program to update and improve the skills of local technicians and production workers.

Company/Country: Rome Industries—Brazil. Project: Manufacture industrial, construction and agricultural machinery. Markets Served (disposition of output): Host Country 88 percent; Other 12 percent (non-U.S.). Total Insured Investment This Investor: $1,879,255. Primary Developmental Effects: This project will provide implements and equipment to the agricultural, forestry, and construction industries. It will train its 154 local employees in modern metal working and management techniques.

Company/Country: Soule International—Saudi Arabia. Project: Fabricate steel buildings. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $1,012,500. Primary Developmental Effects:

This project will develop a pre-engineered steel building industry in Saudi Arabia. The project will create 57 new jobs, 27 in management and technical fields. It will provide craft training in Saudi Arabia and overseas training in management skills, introducing needed manufacturing and technical skills to the Saudi construction sector.

Company/Country: Squibb Middle East, S.A.—Egypt. Project: Pharmaceutical plant. Markets Served (disposition of output): Host Country 50 percent; Other Arab Countries 50 percent. Total Insured Investment This Investor: $3,501,000. Primary Developmental Effects: This project will improve the quality of locally available pharmaceutical products while creating 201 new jobs, 31 in the manager/technical ranks. Management personnel will receive training in the United States and Europe. The project should save Egypt $1,250,000 in foreign exchange and encourage the growth of the domestic packaging industry.

Company/Country: Tandy Corporation—Taiwan. Project: Manufacture electronic equipment. Markets Served (disposition of output): United States 88 percent; Other developed countries 12 percent. Total Insured Investment This Investor: $900,000. Primary Developmental Effects: The primary effect of this project will be the creation of 700 production jobs and 20 positions in the management/technical ranks. Workers will receive on-the-job training. The project will procure goods and services from the local economy. It will also provide Taiwan with $7,950,000 in foreign exchange annually and generate $275,000 in tax revenue for the government.

Company/Country: TRW Resistive Products, Inc.—Barbados. Project: Assemble wirewound resistors. Markets Served (disposition of output): United States 100 percent. Total Insured Investment This Investor: $460,000. Primary Developmental Effects: This project will create 123 new jobs and will provide training in quality control, equipment maintenance and supervisory skills. It will earn Barbados $570,000 in foreign exchange annually.

Company/Country: Universal Leaf Tobacco Company, Inc.—Malawi. Project: Process tobacco. Markets Served (disposition of output): Worldwide, primarily Europe. Total Insured Investment This Investor: $2,700,000. Primary Developmental Effects: Tobacco is Malawi's major export crop and this project is considered crucial to the country's development plans. The project will employ a total of 2,500 new workers and earn Malawi—one of the world's poorest countries—$16,600,000 annually in foreign exchange.

Company/Country: Wagner Electric Corporation—Venezuela. Project: Manufacture automotive brake parts. Markets Served (disposition of output): Host country 100 percent. Total Insured Investment This Investor: $1,569,767. Primary Developmental Effects: This project will supply 85 percent of local consumption of brake parts and is consistent with the host government's effort to improve technological capability and achieve self-sufficiency in the auto industry. The project will use local metal stampings, springs, rubber parts and friction materials in assembling brake parts. The project will create 58 new jobs and provide necessary training at the managerial and production level.

OPIC Projects Insured—1979

Company/Country: Advanced Micro Devices, Inc.—Malaysia. Project: Integrated circuit manufacturing facility (expansion). Markets Served (disposition of output): United States 100 percent. Total Insured Investment This Investor: $1,440,000. Primary Developmental Effects: This project will provide training and employment for 2,510 workers. Several of the senior management and technical staff will receive further training in the U.S. The project will result in annual net foreign exchange earnings of $6 million.

Company/Country: American Standard International—Costa Rica. Project: Manufacture of plastic plumbing fixtures (expansion). Markets Served (disposition of output): Central America. Total Insured Investment This Investor: $247,960. Primary Developmental Effects: The foreign enterprise, which is 50 percent owned by host country citizens, will make available increased quantities of chromed plastic fittings at prices substantially lower than equivalent brass fittings now imported. Annual net foreign exchange savings will amount to $1,046,295. The project will provide training and employment for 43 workers.

Company/Country: Chemtex Fibers, Inc.—Korea. Project: Manufacture of rayon staple fiber (expansion). Markets Served (disposition of output): Korea and other oriental countries. Total Insured Investment This Investor: $1,955,453. Primary Developmental Effects: Increased amounts of higher quality rayon staple fiber will be made available to the local textile industry. The foreign enterprise, which is wholly-owned by private Korean interests, will provide technical training and employment for 164 additional workers. Annual net foreign exchange savings will amount to $7,665,186.

Company/Country: Coca-Cola Company—Egypt. Project: Growing and packaging citrus fruit. Markets Served (disposition of output): Middle East and Europe. Total Insured Investment This Investor: $4,500,000. Primary Developmental Effects: The project will reclaim arid land for the production of citrus fruit. Employment will be directly provided for 350 local workers. In addition, downstream job opportunities will be created in infrastructure construction involving roads, drainage canals, housing, offices, warehouses, pumping stations, reservoirs, and power lines. Annual net foreign exchange earnings will amount to $21,000,000.

Company/Country: Corcom, Inc.—Barbados. Project: Manufacture electronic inductors. Markets Served (disposition of output): Mexico 80 percent; United States 20 percent. Total Insured Investment This Investor: $486,000. Primary Developmental Effects: This project will provide its 204 production workers with six weeks of classroom training plus on-the-job training. The nine management and technical employees will receive on-the-job training. The project will generate $363,000 annually in foreign exchange.

Company/Country: Cornell-Dubilier Electric Corporation—Haiti. Project: Manufacturing mica capacitors. Marks Served (disposition of output): Primarily the United States. Total Insured Investment This Investor: $1,800,000. Primary Developmental Effects: A defunct enterprise will be reactivated and expanded providing employment for 742 workers. Manual and machine assembly skills will be taught and some workers will visit the U.S. for more extensive training in management and engineering. The project will provide improved working conditions with better hygiene and ventilation elimination of overcrowding better lighting and air conditioning and medical examination.

Company/Country: Dana Corporation—India. Project: Auto parts production. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $315,000. Primary Developmental Effects: This project—located in a remote area—will create 241 jobs, 41 of which will be in the management/technician ranks. On-the-job training is provided for production workers and management practices are periodically reviewed by visits to the facility. The project will provide transportation, cafeteria services and medical assistance for its employees. It will also procure supplies from the local market.

Company/Country: Dana Corporation—Korea. Project: Expansion of a vehicle accessories and components facility. Markets Served (disposition of output): Korea and other Asia. Total Insured Investment This Investor: $441,000. Primary Developmental Effects: More than 80 percent of the plant's raw materials needed in the production of axles and shafts is obtained locally. The expansion will significantly increase local requirements for forgings and castings and result in employment. The project will directly employ 240 workers. Training will be provided.

Company/Country: Dana Corporation—Philippines. Project: Auto parts production. Markets Served (disposition of output): Host Country and other Asia. Total Insured Investment This Investor: $1,818,000. Primary Developmental Effects: This project will upgrade the Philippine auto parts industry while at the same promoting local supplier industries. It will create 127 new jobs. 27 in the management/technician ranks. Production workers will receive on-the-job training and supervisory personnel will be trained in the United States. Project will provide employees with educational benefits, cafeteria and recreational facilities.

Company/Country: Dresser Industries, Inc.—India. Project: Manufacture refractory bricks. Markets Served (disposition of output): India, Mid-East, Southeast Asia and Asia. Total Insured Investment This Investor: $810,000. Primary Developmental Effects: The investor will provide technical assistance under a licensing agreement with the foreign enterprise which is 100 percent locally owned. Local raw material will be used to produce a higher quality refractory brick for use in Indian industry. The project will directly employ 360 workers and result in annual net foreign exchange savings of $4.5 million.

Company/Country: Dresser Industries, Inc.—India. Project: Manufacture of valves. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $1,321,200. Primary Developmental Effects: The investor will provide technical assistance under a license agreement with the foreign enterprise which is wholly-owned by the Government of India. The project will make available increased quantities of higher quality valves. Training and employment will be provided for 500 workers. Some Indian personnel will be trained at the investor s U.S. facility.

Company/Country: International Proteins Corp.—El Salvador. Project: Seafood catching and processing. Markets Served (disposition of output): United States 58 percent; Europe 29 percent; Host Country 12 percent. Total Insured Investment This Investor: $450,000. Primary Developmental Effects: This project is the taking and processing of small shrimp in host country waters. The project will employ a total of 355 local workers. Training will be onsite by foreign technicians and boat captains. The project should earn the host country $1,492,000 in foreign exchange annually.

Company/Country: I. S. Joseph Shipping Company—Jamaica, Project: Soybean processing facility. Markets Served (disposition of output): Host Country and other CARICOM members. Total Insured Investment This Investor: $794,000. Primary Developmental Effects; This project will provide soybean oil and meal at prices 20 percent below current levels. The project is also expected to encourage expansion of the feed, processed meat and vegetable oil industry in Jamaica. It will directly increase the protein available to Jamaicans. The project will create 70 new jobs and provide training in country and in the United States. It should save Jamaica $3,900,000 annually in foreign exchange.

Company/Country: Kimberly-Clark Corp.—El Salvador. Project: Manufacture paper products. Markets Served (disposition of output): Host Country and other Central American Countries. Total Insured Investment This Investor, $4,050,000. Primary Developmental Effects: The project will increase the amount of hygienic paper products available to local distributors. Professional and technical training will be provided by the project which will employ 306 workers. The project will result in annual net foreign exchange savings for the host country of $2,230,000 and the collection of duties and taxes amounting to $500 000. The project is 25 percent locally owned.

Company/Country: Motorola Asia. Ltd.—Korea. Project: Manufacture and test semiconductors (expansion). Markets Served (disposition of output): United States 80 percent; Europe 20 percent. Total Insured Investment This Investor: $1,980,000. Primary Developmental Effects: This project provides a cafeteria, first aid station, medical examinations, educational benefits and recreational facilities for its 4,253 employees. On-the-job training and some classroom training is provided local employees. This project procures supplies and parts from local businesses and earns Korea $810,000 per annum in foreign exchange.

Company/Country: Dr. John Nafeh—Egypt. Project: Assemble video electronics. Markets Served (disposition of output): Europe 50 percent; Middle East 50 percent. Total Insured Investment This Investor: $157,500. Primary Developmental Effects: This project is located in a rural area. The project should earn Egypt $1,150,000 annually in foreign exchange and provide the government with $70,000 annually in tax revenue. It will create 122 local jobs and provide training in Egypt and the United States.

Company/Country: Rockwell International Corp.—Korea. Project: Assemble microwave equipment. Markets Served (disposition of output): Host country. Total Insured Investment This Investor: $627,750. Primary Developmental Effects: This joint venture will produce products for the domestic market that are not currently available from domestic producers. The project will employ 58 local workers and train them both in Korea and the United States. The annual net foreign exchange savings from this project will total $1,716,000. The project will also stimulate local electronic industry suppliers through local parts procurement of $300,000 annually.

Company/Country: Shrimp Culture, Inc.—Honduras. Project: Shrimp farm. Markets Served (disposition of output): United States 99 percent; Host Country 1 percent. Total Insured Investment This Investor: $1,530,000. Primary Developmental Effects: This project will introduce shrimp farming techniques to a rural area of Honduras with high unemployment. It will create more than 30 jobs and provide training in marine biology, hatchery techniques, management and general administration. The project will provide some housing and a school for employees. Foreign exchange earnings from the project are estimated at $425,000 annually.

Company/Country: Sylvania Overseas Trading Corp.—Haiti. Project: Assemble electronic connectors (expansion). Markets Served (disposition of output): United States 100 percent. Total Insured Investment This Investor: $540,000. Primary Developmental Effects: This project will employ 160 local workers. The project has been cited by the American Embassy in Port-au-Prince as settting a high standard for employee benefits. It will also earn Haiti $126,500 per year in foreign exchange.

Company/Country: Union Carbide Corp.—Nigeria. Project: Manufacture and distribute dry cell batteries. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $7,145,482. Primary Developmental Effects: This project will produce 60 to 90 million dry cell batteries a year for domestic consumption. It will provide 424 new jobs, overseas training will be provided to employees as well as medical services and housing for some personnel. Local ownership is 40 percent of this project.

Company/Country: Uniroyal, Inc.—Indonesia. Project: Expansion of natural rubber plantation. Markets Served (disposition of output): United States. Total Insured Investment This Investor: $3,375,000. Primary Developmental Effects: This project will create 804 new jobs and provide overseas training for 4 supervisory personnel. It will provide housing, educational and hospital facilities and services and earn Indonesia $2,420,000 in additional foreign exchange each year.

BANKS INSURED BY OPIC—1978

Company/Country: Bank of America—Egypt. Project: Commercial Bank. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $2,070,000. Primary Developmental Effects: This project represents a joint effort by BOA Egyptian interests, the Kuwait Real Estate Bank and a Luxembourg bank to improve banking services in Egypt. The bank will stimulate the local commercial sector and promote the Egyptian Government's development objectives. It will create 53 new jobs—five management and 48 technical and provide for overseas training for local employees.

Company/Country: Bank of America—Pakistan. Project: Commercial bank (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $1,170,000. Primary Developmental Effects: This project will permit the expansion of BOA operations in Karachi and Lahore and the hiring of 180 local employees, 35 in management positions and the balance in the technical ranks. All employees will be trained in wordwide BOA standards. The project will also contribute to development through improved banking services for domestic and international businessmen.

Company/Country: Chase Manhattan Bank—Dominican Republic. Project: Commercial bank (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $1,800,000. Primary Developmental Effects: This project will provide jobs and training for 210 employees. The project will increase government tax revenues by $1,290,000 annually.

Company/Country: Chase Manhattan Bank—Thailand. Project: Branch bank (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $900,000. Primary Developmental Effects: This project will create 157 new jobs in the banking sector and provide training for employees. The project will result in local expenditures of $1,000,000 and generate $171,388 in annual revenue for the government.

Company/Country: Chase Manhattan Bank—Thailand. Project: Finance company. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $900,000. Primary Developmental Effects: This project will make medium term credit available to small businessmen and farmers in Thailand.

and Lahore. It will result in 210 new jobs for Pakistanis' in the management or (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $2,201,400. Primary Developmental Effects: This project will permit Citibank to expand its lending and bank services in Karachi and Lahore. It will result in 210 new jobs for Pakistani's in the management or technical fields. Citibank provides overseas training for local bank personnel.

This project will also provide $2,000,000 annually in tax revenues to the government.

Company/Country: Continental International Finance Corp.—Thailand. Project: Financial institution. Marks Served (disposition of output): Host Country. Total Insured Investment This Investor: $882,245. Primary Developmental Effects: Project will expand operations of financial intermediary operation which acts as an investment bank in underwriting debt and promoting equity issues. It will create 28 new jobs in this growing sector and provide training for local employees in Chicago. Project will increase capital formation in the private sector.

Company/Country: Multi-Bank Financing Consortium[1]—Sudan. Project: Fertilizer plant. Markets Served (disposition of output): Host Country. Total Insured Investment These Investors: $8,604,000. Primary Developments Effects: This project will produce 100,000 tons of nitrogen fertilized per year as part of a government plan to reach self-sufficiency in food within six years. The cost of the fertilizer to Sudanese farmers will be lower than if imported.

Company/Country: Morgan Guaranty International Finance Corp.—Morocco. Project: Development bank (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $173,873. Primary Developmental Effects: This investment is part of a BNDE effort to qualify for a $45 million World Bank loan. BNDE's investments have supported many projects in agri-business and manufacturing. BNDE employment as a result of this expansion will increase by 81 positions.

Company/Country: Security Pacific National Bank—Philippines. Project: Commercial bank. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $900,000. Primary Developmental Effects: This project will create 19 new local jobs and help the Philippines to compete with the Pacific International money centers in Hong Kong and Singapore.

Banks Insured by OPIC—1979

Company/Country: Citibank, N.A.—Korea. Project: Branch bank (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $1,118,012. Primary Developmental Effects: This project will permit an increase in loan activity by a Seoul branch and the opening of a new bank in Pusan, Korea's major industrial area. The increased financing and banking services offered to the business community should provide increased employment and earnings throughout the economy. The bank will directly employ 42 new workers providing them with training in international and commercial banking operations.

Company/Country: Citibank, N.A.—Pakistan. Project: Branch bank (expansion). Markets Served (disposition of output): Host Country Total Insured Investment This Investor: $559,800. Primary Developmental Effects: The branch provides a full line of commercial banking services to Pakistani as well as the foreign business community. The increased capitalization permits a substantial increase in loan activity. The bank will directly employ 205 additional workers and provide training. Annual net government revenues resulting from the project amount to $600,000.

Company/Country: Citibank, N.A.—Senegal. Project: Branch bank. Markets Served (disposition of output): Host Country. Total Insured Investment This Invester: $900,000. Primary Development Effects: The bank provides a full line of commercial services. The bank will employ 16 workers providing them with technical and professional training.

Company/Country: Citibank Overseas Investment Corporation—Dominican Republic. Project: Finance company (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $450,000. Primary Developmental Effects: By providing medium and long term loans to the productive sectors of the economy the project should help stimulate business activity and create new jobs. The project will provide employment and technical and professional training for 13 new workers.

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[1] Hartford National Bank, Security Pacific National Bank, Continental Illinois National Bank, First National Bank of St. Paul, New England Merchants National Bank, Industrial National Bank, First National Bank of Boston.

Company/Country: Citibank Overseas Investment Corp.—Thailand. Project: Development lending facility (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $525,893. Primary Developmental Effects: The project will provide financial services to various government and private projects. The project will employ 38 workers and a training program has been implemented for development of account officer skills.

Company/Country: Continental Illinois National Bank—Korea. Project: Branch bank. Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $931,000. Primary Developmental Effects: This project will open a new branch bank in Korea. It will create 28 new jobs, 13 in the management/professional ranks. Employees will be trained in Korea and in the United States.

Company/Country: Morgan Guaranty International Finance Corp.—Tunisia. Project: Bank (expansion). Markets Served (disposition of output): Host Country. Total Insured Investment This Investor: $61,785. Primary Developmental Effects: This project is part of a plan to increase the equity participation of local Tunisians in the bank from 18 percent to 50 percent. The commercial banking services provided will assist local enterprises and stimulate further business activity and employment.

OPIC Finance—1978

Company/Country: Cuirs Hawtan, S.A.—Haiti. Project: Tannery. Markets Served (disposition of output): United States. OPIC Commitment: $400,000. Primary Developmental Effects: A $400,000 loan will help finance a small tannery for the production of shearing, lambskin and kidskin. The project is sponsored by a small Massachusetts business which needs the skins to support its U.S. factory. Haiti, the poorest country in the Western hemisphere, has few national resources beyond its labor supply. Development of transportation industry, the processing of imported raw materials for re-export, is one of the Government of Haiti's principal thrusts in attracting foreign investment. The project will provide 80 jobs and badly needed export revenues.

Company/Country: Empacadora Nacional, C.A.—Ecuador. Project: Seafood processing. Markets Served (disposition of output): Host Country 20 percent; U.S. 80 percent. OPIC Commitment: $700,000. Primary Developmental Effects: OPIC's loan of $700,000, out of a total project cost of $986,500, will be used to modernize and expand the production capacity of this seafood processor in Ecuador. The project will help develop an important resource, the titi shrimp, which is currently not harvested commercially because of the lack of processing facilities. The project will improve the country's foreign exchange earnings through the export of part of the production of this plant. In addition to its commercial value, the titi shrimp will provide an important source of protein.

Company/Country: Liberian Steel Products Corporation—Liberia. Project: Manufacture of metal culvert pipe. Markets Served (disposition of output): Host Country; West Africa Countries. OPIC Commitment: $360,000. Primary Development Effects: The OPIC loan representing about 50 percent of a total cost of $581,000 will assist a small U.S. business to make its first overseas investment. The project entails construction and operation of a metal culvert pipe plant which will produce corrugated spiral and nestable steel pipe sections for sale in Liberia and other West African countries. The project is an important element in the development of Liberia. The culverts are necessary for the building of roads to tie the coast to the less developed interior sections of the country. Production of steel culverts locally will lower procurement costs for the government of Liberia, as well as assuring a continuing market for the export of American semi-finished steel products.

Company/Country: Freeport Indonesia—Indonesia. Project: Copper mining (expansion). Markets Served (disposition of output): Europe and Japan. OPIC Commitment: $41,000,000. Primary Development Effect: OPIC has guaranteed a $41 million loan to Freeport Indonesia as part of a $113.6 million copper mine expansion. The output of the mine will go to European and Japanese smelters and is expected to provide Indonesia with an average of $10.7 million per annum in foreign exchange. The expansion will add 490 jobs and spur local development through wages and procurement. This project has already provided a significant health, educational and other benefits to Indonesians at its remote Irian Jaya location.

Company/Country: Maricultura, S.A.—Costa Rica. Project: Shrimp farming. Markets Served (disposition of output): United States. OPIC Commitment: $1,400,000. Primary Development Effect: OPIC made a $1,400,000 Direct Loan to Maricultura, S.A., a shrimp farm project in Costa Rica. This project also received a $1,400,000 loan from the International Finance Corporation, a World Bank affiliate. The project has several important development effects. It is located in an economically underdeveloped area of Costa Rica and is constructed in what was formerly a mangrove swamp, unsuitable for either agriculture or industry. The project will transfer the newest technology in shrimp farming to a region where it is exceptionally well suited. The project will create 96 new jobs and provide training to local personnel in all aspects of shrimp farming. The Costa Rican Government has directly supported this project having supplied 65 percent of the required funds. The foreign exchange earnings from the project will average more than $2.5 million per year over the first five years of operation.

Company/Country: Life Flour Mill Limited—Nigeria. Project: Polypropylese bag manufacturing plant. Markets Served (disposition of output): Host Country, OPIC Commitment: $4,000,000. Primary Development Effect: This project represents an increase to $14 million of a $10 million OPIC guaranteed loan which was used to expand flour milling operations. The additional $4 million loan will be used to set up a factory to produce 50 kilo bags. This will provide a reliable source of bags for packaging the flour. An additional 40 to 50 Nigerians will be employed by the bag factory. The project will aid in increasing the supply of enriched wheat flour to the local market, thus providing a source of low cost protein in the Nigerian diet.

OPIC FINANCE—1979

Freeport Indonesia

OPIC has guaranteed a $41 million loan to Freeport Indonesia as part of a $113.6 million copper mine expansion. The output of the mine will go to European and Japanese smelters and is expected to provide Indonesia with an average of $10.7 million per annum in foreign exchange. The expansion will add 490 new jobs and spur local development through wages and procurement. This project has already provided a significant health, educational and other benefits to Indonesians at its remote Irian Jaya location.

Maricultura, S.A.

OPIC made a $2,100,000 Direct Investment Loan to Maricultura, S.A., a shrimp farm project in Costa Rica. This project also received a $2,100,000 loan from the International Finance Corporation, a World Bank affiliate. The project has several important development effects. It is located in an economically underdeveloped area of Costa Rica and is constructed in what was formerly a mangrove swamp, unsuitable for either agriculture or industry. The project will transfer the newest technology in shrimp farming to a region where it is exceptionally well suited. The project will create 96 new jobs and provide training to local personnel in all aspects of shrimp farming. The Costa Rican Government has directly supported this project having supplied 65 percent of the required funds. The foreign exchange earnings from the project will average more than $2.5 million per year over the first five years of operation.

TRADE MONITORING SYSTEM

SIC-BASED MANUFACTURING COMMODITY GROUPS WITH AVERAGE LEVEL OF IMPORT PENETRATION OF 15 PERCENT OR MORE, 1972-77[1]

1972 SIC-based commodity code	Title	U.S. imports as a percent of new supply				Average annual percentage point change, 1972-77
		1977 level	Range, 1972-77		Average, 1972-77	
			Low	High		
3915 (part)	Jewelers' findings and materials, and lapidary work.	74.1	68.9	75.6	72.2	1.0
2299	Textile mill products, n.e.s	47.7	47.7	63.7	57.8	−2.2
3751	Motorcycles, bicycles, and parts, n.e.s	52.9	49.8	65.1	56.7	−2.5
3263	Earthenware tableware	60.3	49.2	60.3	53.5	1.8
3636	Sewing machines, and parts, n.e.s	45.4	45.3	50.9	47.6	−1.1
3021	Footwear, rubber or plastic	60.6	33.9	60.6	46.0	5.3
3149 (part)	Leather ski boots and other leather athletic footwear; leather moccasins.	62.9	31.6	62.9	44.8	6.2
3339; pt. 3341	Smelter and refined nonferrous metals, n.e.s.	49.5	36.9	49.5	41.8	1.6
2386	Leather wearing apparel, n.e.s	55.0	33.9	55.0	41.1	4.1
3962	Artificial trees, flowers, dried plants, and grasses; ornamental articles of feathers.	43.7	30.6	44.3	40.6	.3
2435 (part)	Hardwood plywood and veneer	41.7	36.8	42.3	40.2	−.1
3262	China tableware	43.4	36.8	44.4	40.1	.5
3574 (part)	Calculating and accounting machines, except electronic computing equipment.	39.0	33.6	44.6	39.3	−.2
2279	Floor coverings, n.e.s., of textile or vegetable materials.	48.3	30.9	48.3	38.3	3.5
3269	Ceramic articles, n.e.s	41.8	33.7	42.0	37.7	1.6
3651	Radio and TV receiving sets, phonographs, and audio equipment, n.e.s.	42.2	33.3	42.2	37.2	1.5
3333; pt. 3341	Smelter and refined zinc	39.2	28.5	43.3	36.0	2.1
2611	Pulp mill products	33.0	30.4	33.0	31.7	.5
2385	Rainwear	34.2	20.2	44.9	31.2	2.8
3315 (part)	Brads, nails, spikes, staples, corrugated fasteners, and glazers' points.	33.4	26.9	35.9	30.7	1.3
3552	Textile machinery and parts, n.e.s	30.1	26.1	36.6	29.9	−1.3
3313	Electrometallurgical products	34.5	19.7	36.3	29.4	3.0
2292	Lace goods, n.e.s	27.1	21.7	35.1	29.2	1.1
2013 (part)	Intestines, weasands, bladders, etc., prepared for use as sausage casings.	49.9	19.2	49.9	28.1	6.1
3873	Watches, clocks, clockwork-operated devices, and parts, n.e.s.	34.2	21.1	34.2	27.2	2.6
2298	Cordage	21.7	21.5	40.3	26.7	0
2429	Wood shingles, cooperage stock, and excelsior.	34.2	19.3	31.2	26.5	1.5
3171	Women's handbags and purses	33.6	20.6	33.6	26.2	2.6
2085	Distilled, rectified and blended liquors, except brandy.	24.3	24.3	26.4	25.5	−.1
3253	Ceramic floor and wall tile	27.7	16.7	27.7	23.2	1.0
2061, 2, 3	Cane or beet sugar, sirup, and molasses; beet pulp dried.	22.6	21.4	24.3	23.0	0
3144; pt. 3149	Women's footwear, except athletic	25.4	18.9	25.4	22.8	1.3
2091	Canned and cured fish and seafoods	21.0	20.7	25.4	22.6	−.8
2084	Wines, brandy, and brandy spirits	23.6	19.5	24.2	21.7	.5
3942	Dolls and stuffed toy animals	22.0	17.5	22.8	21.1	0
2833	Medicinals and botanicals	20.7	19.9	22.0	20.8	−.3
3151	Gloves, leather	24.0	18.3	24.0	20.7	.3
3699 (part); pt. 3629	Electrical articles and electrical parts of articles, n.e.s.	18.5	14.8	19.7	18.0	.2
3914	Siverware, plated ware, and stainless steel ware.	20.9	14.9	20.9	17.9	1.2
3674; pt. 3629	Semiconductors, rectifiers and rectifying apparatus.	21.6	11.5	21.6	17.8	2.0
3832	Optical instruments and lenses, and parts, n.e.s.	18.3	14.3	19.5	17.1	.2
3161	Luggage of leather, textile materials, plastics, and other materials.	20.2	12.6	20.2	16.6	1.0
3572	Typewriters and parts, n.e.s	16.2	14.8	19.5	16.5	0
2271	Floor coverings, textile materials, pile inserted during weaving.	22.9	11.3	22.9	16.3	2.3
2369; 2339; pts. 2253, 2329, 2387.	Outerwear, n.e.s., of textile materials	18.5	14.0	18.5	16.3	.4
3143; pt. 3149	Men's footwear, except athletic	17.0	14.7	18.4	16.1	.5
3851	Ophthalmic goods and parts, n.e.s	19.5	12.4	19.5	15.5	1.4
2066 (part); pt. 2099	Chocolate and cocoa products	27.2	11.0	27.2	15.4	3.2
3949	Sporting and athletic goods and parts, n.e.s.	19.3	12.8	19.3	15.4	1.2
2381; 2259	Gloves, except sports gloves and leather or fur gloves; glove linings.	18.6	12.7	18.6	15.3	1.0
3711 (part); 3713, 6; pt. 3799.	Motor vehicles and passenger car bodies	14.8	13.4	17.3	15.1	.2
3149 (part)	Leather ski boots and other leather athletic footwear; leather moccasins.	62.9	31.6	62.9	44.8	6.2

TRADE MONITORING SYSTEM—Continued

SIC-BASED MANUFACTURING COMMODITY GROUPS WITH AVERAGE ANNUAL INCREASE IN IMPORT PENETRATION[2] OF 1 PERCENTAGE POINT OR MORE, 1972–77

1972 SIC-based commodity code	Title	U.S. imports as a percent of new supply				Average annual percentage point change, 1972–77
		1977 level	Range, 1972–77		Average, 1972–77	
			Low	High		
2013 (part)	Intestines, weasands, blatters, etc., prepared for use as sausage casings.	49.9	19.2	49.9	28.1	6.1
3021	Footwear, rubber or plastic	60.6	33.9	60.6	46.0	5.3
2386	Leather wearing apparel, n.e.s	55.0	33.9	55.0	41.1	4.[illegible]
2279	Floor covering, n.e.s., of textile or vegetable materials.	48.3	30.9	48.3	38.3	3.5
2066 part); pt. 2099	Chocolate and cocoa products	27.2	11.0	27.2	15.4	3.2
3313	Electrometallurgical products	34.5	19.7	36.3	29.4	3.0
2385	Rainwear	34.2	20.2	44.9	31.2	2.8
3873	Watches, clocks, clockwork-operated devices, and parts, n.e.s.	34.2	21.1	34.2	27.2	2.6
3171	Woman's handbags and purses	33.6	20.6	33.6	26.2	2.6
2271	Floor coverings, textile materials, pile inserted during weaving.	22.9	11.3	22.9	16.3	2.3
3333; pt. 3341	Smelter and refined zinc	39.2	28.5	43.3	36.0	2.1
2342	Corsets and allied garments	15.5	5.3	15.5	10.4	2.0
3674; pt. 3629	Semiconductors, rectifiers and rectifying apparatus.	21.6	11.5	21.6	17.8	2.0
3263	Earthenware tableware	60.3	49.2	60.3	53.5	1.8
2389	Handkerchiefs, garters, and other apparel, n.e.s.	14.5	5.6	14.5	9.3	1.8
3671	Electronic receiving tubes	18.2	10.0	18.2	14.4	1.6
3339; pt. 3341	Smelter and refined nonferrous metals, n.e.s.	49.5	36.9	49.5	41.6	1.6
3269	Ceramic articles, n.e.s	41.8	33.7	42.0	37.7	1.6
3131	Leather cut to shapes for footwear; leather shoelaces and welting.	10.2	2.2	10.2	5.2	1.6
3911; pt. 3915	Jewelry, cigarette lighters, and chains, etc., of precious metal or stones.	12.0	4.2	12.0	6.8	1.6
2429	Wood shingles, cooperage stock, and excelsior.	34.2	19.3	34.2	26.5	1.5
3651	Radio and TV receiving sets, phonographs, and audio equipment.	42.2	33.3	42.2	37.2	1.5
3851	Ophthalmic goods and parts, n.e.s	19.5	12.4	19.5	15.5	1.4
2492	Wood particleboard, whether or not face finished.	7.3	.3	7.3	2.1	1.3
3315 (part)	Brads, nails, spikes, staples, corrugated fasteners, and glaziers' points.	33.4	26.9	35.9	30.7	1.3
3144; pt. 3149	Women's footwear, except athletic	25.4	18.9	25.4	22.8	1.3
3675; pt. 3629	Electrical capacitors, fixed or variable	15.9	9.6	15.9	13.2	1.3
3949	Sporting and athletic goods and parts	19.3	12.8	19.3	15.4	1.2
3676	Resistors for electronic applications	12.3	6.2	12.3	8.9	1.2
3914	Silverware, plated ware, and stainless steel ware.	20.9	14.9	20.9	17.9	1.2
2371	Fur wearing apparel, and fur articles, n.e.s	9.6	3.7	9.6	7.1	1.2
2121	Cigars and cheroots	8.2	2.3	8.2	4.8	1.2
3662	TV, radio, signalling, nav aid, radar, and remote control apparatus.	8.8	3.2	11.7	7.0	1.1
2292	Lace goods, n.e.s	27.1	21.7	35.1	29.2	1.1
3541	Metal-cutting machine tools, and parts, n.e.s.	12.9	7.7	12.9	10.6	1.1
2387 (part)	Leather apparel belts, with or without buckles.	10.0	4.8	10.0	7.0	1.0
3915 (part)	Jewelers' findings and materials, and lapidary work.	74.1	68.9	75.6	72.2	1.0
3551	Food products machinery, and parts, n.e.s	13.7	8.2	15.9	11.5	1.0
2321, 2; pt. 2331; pt. 2361; pt. 2253, 4.	Male shirts, nightwear and underwear; female and infants' knit shirts.	15.8	10.7	15.8	13.1	1.0
3554	Pulp and paper machinery, and parts, n.e.s.	17.6	10.1	17.6	12.4	1.0
3493, 5	Springs and leaves for springs of base metal.	12.6	7.7	12.6	10.2	1.0
2231 (part)	Wool broad woven fabrics and wool blankets.	13.9	8.9	13.9	10.4	1.0
2311; pt. 2329	Men's or boys' suits and coats, except raincoats.	10.9	6.1	10.9	8.6	1.0
2381; 2259	Gloves, except sports gloves and leather or fur gloves; glove linings.	18.6	13.8	18.6	15.3	1.0
3961	Costume jewelry and costume novelties, except precious metal.	15.2	10.4	15.2	12.5	1.0
3253	Ceramic floor and wall tile	27.7	16.7	27.7	23.2	1.0
3161	Luggage of leather, textile materials, plastics and other materials.	20.2	12.6	20.2	16.6	1.0

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[1] Import penetration is calculated as the value of U.S. imports for consumption as a percentage the sum (new supply) of the value of U.S. imports and comparable U.S. product class shipments. This table includes all commodity groups with imports accounting for 18.5 percent of more or new supply in 1977.

[2] Import penetration is calculated as the value of U.S. imports for consumption as a percent of the sum (new supply) of the value of U.S. imports and comparable U.S. product class shipments.

Senator **Sarbanes**. Secretary Bergsten, if you will come forward we will hear your testimony. We may be able to get it in before the vote. Please, go ahead.

STATEMENT OF HON. FRED BERGSTEN, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. **Bergsten**. Thank you very much, Mr. Chairman.

Let me at the outset apologize for our missing connections yesterday. I am sorry I was not able to speak to the panels yesterday while the other people from the Government were here.

Let me just say that as you heard yesterday, there is no administration position on this particular legislation and therefore I appear before you as a Board member of OPIC—I think the only Board member from the Government side that was involved in the legislation in 1977–78 creating the current OPIC and also as one who has done a great deal—I would like to think as much as most anybody in the Government—to try to expand U.S. exports and improve U.S. export competitiveness over the last few years. So, it is with that background hat I come to the committee.

My personal judgment is that it would be a mistake to make the changes in the OPIC statute that are proposed in the Javits-Ribicoff bill. Let me explain why. It is quite clear that OPIC under its present mandate can and in some cases does promote U.S. exports. I think in act Mr. Llewellyn said yesterday that he could carry out an export mandate, in essence, under his current legislative situation and that is robably the case.

But I think it is hard for any Government corporation or Government agency to serve two masters, and that is in fact what would be alled for by explicitly adding a trade purpose and by eliminating the 1,000 cutoff point which I will get to in a moment. It would be calling n OPIC to serve two masters: to promote U.S. exports, on the one and and to promote development objectives on the other hand.

I think that adding an explicit export focus—I will get in a minute o the question of whether you can really do it—would inevitably istort and reduce the developmental focus of the OPIC program. here are resource limits, both in terms of financing and in terms of aff capability, and as one purpose takes on a greater priority, the her is inevitably going to suffer. I think, in fact, we saw a case of at in the recent Board meeting you discussed yesterday, the famous oard meeting of May 13, where immediately after voting a trade urpose for the institution the Board approved a loan for a particular xport project in Saudi Arabia. This was fine from the standpoint of romoting U.S. exports but, frankly, could hardly be regarded as lding anything to the development of Saudi Arabia. The Saudis ould get that project, invested in from abroad, financed from abroad ithout OPIC, without U.S. involvement, and any additional impact their development process in Saudi Arabia—even if one thought the nited States should be promoting actively development in Saudi rabia—would be very, very hard to find.

I think the first point is that a trade focus would almost inevitably stort the development focus. A tension would be set up between o competing objectives. How that tension would be resolved in individual cases or in the aggregate, year to year, would probably depend on the orientation of Management and the orientation of the Board, but there clearly would be a tension. You would be trying to serve two masters. I think it is very, very difficult to do. I do not think it is a good management approach or a good statutory mandate to have.

Second and related to that is whether there is a need for OPIC programs to promote development in the more advanced of the developing countries. This gets to the question of the $1,000 limit and the priority on the poor countries that was written into the legislation in 1977 and 1978.

I think it is quite clear—the data shows it; the record shows it; the testimony of individual companies and countries will show it—that the more advanced of the developing countries have no trouble attracting foreign direct investment. Foreign direct investment has come into those countries at a very sharp pace, has risen remarkably year on year. I could supply the data for the committee if you would like to have it. I think the bottom line is hard to quarrel with. The more advanced developing countries really have no difficulty attracting foreign direct investment to support their own national economic and developmental objectives.

If that is the case one has to ask why it is that U.S. Government resources would be put behind investment by U.S. firms going into those countries if one agrees that it would not add to their total stock of incoming investment. One can then argue that we should take business away from German, or French, or British, or Japanese firms to promote trade. But in so doing we would not be adding anything to the development of the country since they would get the project anyway. Therefore, the development purpose would not in any meaningful sense be served.

There is one big exception to that, and that is the energy and raw materials category where private foreign investment has flagged badly in recent years. Foreign investors have not been willing to go into developing countries, including advanced developing countries for reasons of political risk and uncertainty.

That is why—and I think correctly—the legislation in 1977-78 carved out an exemption from the general norm for investment in the energy and raw materials area. That is where our national interest clearly is served, putting Government resources behind foreign investment to produce more oil, more gas, more copper, more nickel, whatever it may be. That clearly is in our interest. It does promote development in the countries involved because without the OPIC insurance the project might not take place. I think that exception is proper for energy; for manufacturing and services industries where the record clearly shows that investment occurs anyway, the case for additionality is very, very small.

Now, that suggests that the $1,000 guideline is important—it is admittedly an arbitrary number. At the time an effort was made to come up with some proxy that could put into at least some concrete form the distinction between poor and more advanced developing countries. No one would argue that any per capita number is exact. The economic development situation of individual countries is too complex to ever capture the differences in a single number. But after trying many different formulas it was agreed that this was the least bad that could be found; it had both symbolic and substantive importance in making a distinction and setting a presumption. Above that level the presumption was that OPIC would not be involved because the countries did not need it except in energy and raw material; below that level the presumption was that it would proceed to devote its financial resources and its human resources to that end. I still think that is a proper distinction.

One has to ask the practical question of what would be the effect of eliminating the $1,000 guideline. Remember that the $1,000 is in 1975 dollars. That is about $1,400 today. Now, there are not very many developing countries that OPIC would like to operate in that are above that limit. There are a few in Latin America—for example, Brazil which has shown a very good record of attracting foreign investment and makes the case that I made before.

But the main effect would be to open up OPIC going into OPEC countries. The main countries that are classified as developing but are above the $1,400 per capita income level are OPEC countries. So, the main effect of eliminating the $1,400 limit would be to bless OPIC going into OPEC. Then one has to raise the question in spite of the clear trade benefits that could be derived: Is that proper in terms of U.S. Government support for development in very wealthy countries who clearly can finance development of that type on their own?

Therefore, as I indicated at the outset, I would personally feel that it does not make sense to change the purpose nor to change the $1,000 guideline.

I would like to say, Senator, that among the reasons I voted against the Board decisions to do that in May were the substantive ones I have just outlined. There were also the procedural reasons you mentioned yesterday. I did argue before the Board that it did not make sense to send proposals to the Congress for a change and at the same time make the change through Board action. I opposed it on those grounds as well as substantive grounds. I think your point yesterday was well taken on that.

Senator SARBANES. We thank you.

Senator JAVITS. Mr. Chairman, if we feel it necessary, may I submit some written questions to Mr. Bergsten?

Senator SARBANES. I think we had the understanding that written questions could be submitted to all of the witnesses.

Senator JAVITS. And also the other panels.

Senator SARBANES. Yes, indeed.

We thank you for your testimony, and the committee will stand adjourned.

[Whereupon, at 12:10 p.m. the committee adjourned, subject to call of the Chair.]

[Additional questions and answers follow:]

ADMINISTRATION RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. **As you indicated in your testimony, the $1,000 per capita GNP eligibility test, which is currently used as the cutoff point of OPIC programs, is an arbitrary figure. Would it be possible to institute a qualitative definition for an advanced developing nation rather than utilizing the quantitative cutoff point of per capita GNP which, over time, becomes outdated and does not necessarily reflect the accurate level of development for a particular country? If so, what measure would you recommend?**

Answer. Inter-country comparisons of levels of development are inherently arbitrary because economic development is a multidimensional concept, and the OPIC Board discussed the issue at great length before settling on the $1,000 criterion in 1977. The Board concluded at that time, correctly in my view, that a purely qualitative definition would be too vague to be useful for policy purposes. We therefore sought the best possible proxy for development status, that best took account of the various dimensions of development and brought them together in one number. We concluded that per capita income was the best such proxy; I would note that such international financial institutions as the International Development Association also use per capita income as the criterion for country eligibility.

Assuming that we want to focus OPIC's operations in the poorer countries, the Board felt then—and I feel now—that we need a criterion which everyone understands to make a clear distinction between richer and poorer countries. This is important for users of OPIC's programs, who should know whether these programs are available in a particular country and why. It is necessary for OPIC's Board and staff to have a clear, simple basis for establishing a presumption that projects in certain countries will or will not go forward. The per capita income criterion would seem to accomplish these functions much better than any purely qualitative decision process, which would necessarily be complex, ambiguous, subject to inconsistency, and cumbersome to operate.

The $1,000 figure, if specified in current dollars would, of course, become outdated over time. However, the statute specifies the criterion in 1975 dollars, which translates into approximately $1,400 in 1980 dollars. Although there is no real need to do so, it would be a simple matter to express the criterion in OPIC's new statute in terms of 1980 dollars.

It should be noted that the country eligibility guidelines, as they have been administered by OPIC's Board since their adoption in late 1977, do not terminate OPIC's operations in higher income countries. They simply establish a presumption, that the Board can override on a case-by-case basis, that OPIC will not support projects in high-income countries unless these projects fall within certain categories of exceptions. Thus the Board has a substantial amount of discretion, which it has used in approving projects it deemed extraordinarily developmental in the poor northeastern part of Brazil and in other advanced developing countries.

Question 2. If the $1,000 per capita GNP eligibility limit remains and OPIC authority is limited to the poorest countries, could the OPIC program continue to be self-sufficient; or would it require appropriated funds? If OPIC were no longer to be self-sufficient and required annual appropriations, what would be the effect on Congressional support for the OPIC reauthorization?

Answer. Political risk insurance is different from life insurance, where there is an actuarial table that permits the insurer to set premiums at levels that will cover probable costs. There is no such actuarial table for OPIC's insurance. Thus no one can be sure that any particular level of premiums will cover costs from claims, or that OPIC will in the future not have to request appropriated funds.

I have seen no evidence that continuation of the $1,000 per capita GNP eligibility limit (which is specified in 1975 dollars, and is about $1,400 today) threatens OPIC's self-sufficiency. OPIC has been operating under this approach since late 1977 and throughout this period has operated at an increasing rate of profit. In fact, OPIC is more profitable today than it was before the limit became effective.

It would, of course, be up to Congress to decide its response if the prospects for OPIC did not appear encouraging for maintaining financial self-sufficiency.

Question 3. You indicated in your testimony that the advanced developing countries do not have any problems attracting U.S. direct foreign investment. How do you account for the fact that U.S. direct investment in the developing world tends to seesaw from year to year?

Answer. The size of direct investment in the developing countries is determined by the same multitude of factors that influence overall foreign direct investment, including U.S. domestic conditions, the state of the international economy and the investment climate in potential host countries. In view of the number of factors involved, and their volatility, it is not surprising that U.S. investment fluctuates. One factor that is especially influential in the case of developing countries is investment in petroleum. Due to its unusual nature and size, it distorts the overall picture. When petroleum is removed from the totals, much of the volatility of investment in developing countries is also removed (see attached table 1)—and it becomes clear that both the absolute magnitude and the LDC share of total U.S. foreign direct investment have risen sharply.

Table 2 illustrates that while the poorer developing countries receive a small share, especially since 1974, of total U.S. direct investment in developing countries, the advanced developing countries are able to attract sizable amounts of U.S. investment.

Question 4. Does OPIC, by providing political risk insurance to private investors in the poorest LDC's, which as a rule do not have the best investment climate for private investment, make the difference between whether or not American private investment will go to the poorest nations?

Answer. As just noted, the advanced developing countries demonstrably attract direct investment on their own. By contrast, the poorer developing countries do not. Moreover, there seems to be a rough inverse correlation in the perceptions of many potential investors between the level of per capita income in a country and the need for political risk insurance there. U.S. policy via OPIC thus can make a difference in the poorer countries, whereas it is needed much less—if at all—in the advanced developing countries.

Question 5. In your book, *American Multinationals and American Interests*, you indicate that, by developing foreign markets for U.S. products, U.S. foreign investment initially promotes U.S. exports; however, over time, foreign investment tends to become the substitute for U.S. exports. Was this analysis based on global U.S. investment or only U.S. investment in the LDC's. If the former, does the analysis of the initial investment-trade link hold true for initial U.S. investment in the LDC's, where we are vying against other foreign investors for the development of new markets?

Answer. Your question appears to be based on the following passage in the book:

> The general thrust of our cross-sectional evidence seems consistent with inferences drawn from product cycle studies. The initial investments of an American manufacturer tend to promote exports by developing foreign markets for U.S. products. Over time, however, foreign investment becomes less and less the complement of, and more and more the substitute for, U.S. exports.[1]

That finding, however, needs to be read in conjunction with the following passage:

> At any given point, the relation between trade and investment is a complex aggregation of simpler connections. Simple conclusions cannot give full justice to the substantial differences among industries, among firms within the same industry, or even among the different product lines and geographical markets of the same corporation.[2]

The relationship between investment and trade was determined to be quite complex. The analysis was done on a global basis, and no attempt was made to separate investment in LDC's since that type of detailed data by industry does not exist—though there was no reason to believe that the situation differed, in this respect, between DCs and LDC's. The conclusion of the book was that no general case can be made that foreign direct investment either promotes or displaces U.S. exports, and I stick by that conclusion today.

TABLE 1.—U.S. FOREIGN DIRECT INVESTMENT

[In millions of dollars]

	1970	1971	1972	1973	1974	1975	1976	1977	1978[1]	1979[2]
All areas—total	7,387	7,280	7,118	11,435	8,765	13,972	12,759	13,039	17,957	25,844
Excluding petroleum	5,245	5,240	5,527	9,860	12,298	9,388	9,955	10,395	15,567	17,080
Developing countries—total	1,565	1,527	1,555	630	−3,056	6,440	3,025	5,140	5,937	7,441
Excluding petroleum	954	1,143	1,208	1,053	3,408	3,531	2,853	4,320	5,096	4,571
Percent of total excluding petroleum)	18.2	21.8	21.8	10.7	27.7	37.6	28.7	41.6	32.7	26.8

[1] 1978 data is revised.
[2] 1979 data is preliminary.

Source: "Survey of Current Business," August 1979, p. 24, table 12 for 1970–77. Data are changes in the stock of FDI which differs from B/P data in that former includes valuation adjustments. 1978 and 1979 data are from Department of Commerce.

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[1] Fred Bergsten, Thomas Horst and Theordore H. Moran, *American Multinationals and American Interests*, (Washington, D.C., The Brookings Institution, 1978) p. 97.
[2] Ibid, p. 97–98.

U.S. FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES[1]

[In millions of dollars]

	1970	1971	1972	1973	1974	1975	1976	1977	1978[2]
Developing countries	1,565	1,527	1,555	630	−3,056	6,440	3,025	5,149	6,004
Advanced developing countries[3]	1,201	1,095	1,385	382	−3,566	5,448	2,772	4,773	5,463
Percentage	77	72	89	61	NA	85	90	93	91
Other	364	432	170	248	510	992	303	376	541
Percentage	23	28	11	39	NA	15	10	7	9

[1] Estimates derived from data supplied by the Department of Commerce.

[2] 1978 data does not include subsequent revisions, since the revised data is not available in sufficient country detail.

[3] Includes OPEC members regardless of per capita income levels.

NA. Not available.

ADVANCED DEVELOPING COUNTRIES

Europe
- Cyprus
- Gibraltar
- Greece
- Malta
- Portugal
- Spain
- Turkey
- Yugoslavia

Africa
- Algeria
- Gabon
- Libya

Central America
- Bahamas
- Barbados
- Bermuda
- Costa Rica
- Guadeloupe
- Guatemala
- Mexico
- Netherlands Antilles
- Panama
- Trinidad and Tobago

South America
- Argentina
- Brazil
- Chile
- French Guyana
- Surinam
- Uruguay
- Venezuela

Middle East
- Bahrain
- Iran
- Iraq
- Israel
- Kuwait
- Lebanon
- Muscat and Oman
- Qatar
- Saudi Arabia
- United Arab Emirates

Asia (including Oceania)
- Brunei
- Fiji Islands
- French Polynesia
- Hong Kong
- New Caledonia
- Singapore
- Taiwan

OPEC MEMBERS NOT ADVANCED DEVELOPING COUNTRIES

- Ecuador
- Indonesia
- Nigeria

OPIC'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. You note in your 1979 Annual Report that overseas affiliates and subsidiaries of U.S. corporations account for about one-third of all U.S. exports, and it is essential that we encourage more investment abroad to strengthen the U.S. economy.

(*a*) What is the basis of your data?

Answer. The figure cited in the OPIC Annual Report for 1979 is based on two sources. The first is the Survey of Current Business, December 1972, the latest U.S. Government analysis. It reports a Commerce Department survey, covering 1970, of 298 U.S. corporations whose exports accounted for 51 percent of total U.S. exports in categories described as "manufacturing," "petroleum," and "other." The results of that sampling showed that exports from those corporations to foreign affiliates of U.S. corporations were $9,823 billion or 46.3 percent of all exports by those corporations. In the "manufacturing" portion only, the figures were $7,981 billion or 46.8 percent of their exports in that category.

The second source is a more recent, private sector survey done by *Business International* (BI). BI's survey covered 93 U.S. companies (88 manufacturing and 5 petroleum companies), whose exports were 37.8 percent of total U.S. merchandise exports in 1978. The results in terms of exports are as follows:

TOTAL EXPORTS FROM THE UNITED STATES TO FOREIGN AFFILIATES, 1970, 1977, 1978

	Number of respondents	Billions		
		1970	1977	1978
All companies	93	$1.454	$11.481	$13.484
Manufacturing companies	88	4.182	10.847	12.708
Petroleum companies	5	.272	.634	.776

TOTAL EXPORTS FROM THE UNITED STATES—NOT EXACTLY MATCHED, 1970, 1977, 1978

	Number of respondents	Billions		
		1970	1977	1978
All companies	93-95	$10.036	$24.106	$28.797
Manufacturing companies	88-90	9.479	22.813	27.396
Petroleum companies	5	.557	1.293	1.401

In terms of percentages the BI survey shows that in 1970, 44.4 percent of exports of the reporting companies went to their own foreign affiliates. In manufacturing the percentage was 44.1 percent. The same percentages for 1978 were 46.8 percent and 46.4 percent, respectively.

A United Nations study, *Transnational Corporations in World Development*, May 1978, page 43, reaches similar factual conclusions: "Roughly 50 percent of the United States exports in 1970 were within transnational corporation systems." The U.N. figure, unlike those in the Commerce Department and BI studies, includes exports from U.S. affiliates of foreign-owned corporations.

Because all these studies are samples and do not record the relationships between buyers and sellers in all U.S. export transactions, OPIC has assumed, for purposes of its Annual Report presentation, a more conservative relationship between U.S. investment overseas and the volume of U.S. exports. OPIC has reinforced this positive relationship in recent years through special efforts to provide support for overseas projects which will generate continuing demand for U.S. exports and thereby strengthen U.S. employment opportunities.

(*b*) What percent of U.S. imports is from foreign affiliates and subsidiaries of U.S. companies?

Answer. The *Survey of Current Business*, March 1978, page 39, reports the following on merchandise imports in 1976 from majority-owned foreign affiliates (MOFA) of U.S. corporations:

	Amount (billions)	Percent from MOFA
Total U.S. merchandise imports excluding military	$124.0	
Total U.S. imports from MOFA	35.9	29.0
Breakdown:		
Manufacturing	14.1	39.3
Petroleum	15.9	44.1
Mining	1.3	3.7
Trade	3.[illegible]	9.5
Other	1.2	3.3

The United Nations' study, *Transnational Corporations in World Development*, May 1978, page 43, concluded: "Approximately 46 percent of imports to the U.S. in 1974 were intra-firm transactions and were almost equally divided between U.S. owned and non-U.S. owned firms."

The Business International sample, reported in its study, *The Effect of U.S. Corporate Foreign Investment*, 1980, produced the following tables:

IMPORTS FROM FOREIGN AFFILIATES, 1970, 1977, 1978

	Number of respondents	Billions		
		1970	1977	1978
All companies	91	$2.845	$11.017	$11.843
Manufacturing companies	87	2.154	6.017	7.129
Petroleum companies	4	.691	5.000	4.714

TOTAL IMPORTS—NOT EXACTLY MATCHED, 1970, 1977, 1978

	Number of respondents	Billions		
		1970	1977	1978
All companies	79-91	$4.632	$18.234	$19.769
Manufacturing companies	76-87	3.736	10.943	12.276
Petroleum companies	3-4	.896	7.291	7.493

Question 2. Would you explain in detail how you calculate the employment effects in both the host country and the U.S. economy on individual OPIC projects, including the data used and the source of data

Answer. When OPIC receives a formal application from a company planning an investment in a less developed country (LDC) project, it undertakes an analysis of the probable or potential impact of that project on the U.S. In each case, this is a sophisticated analysis based upon the information which our staff economists consider necessary in order to assure OPIC that the operation of that project will not cause a significant reduction in the number of employees in the United States.

One of the main areas of analysis is the probable impact of the LDC project on the level of U.S. exports and imports. OPIC carefully analyzes the extent to which a proposed project will generate increased U.S. exports of such things as initial procurement and continuing demand for equipment, machinery, components and spare parts or farm commodities or supplies or other goods and services. In some cases, the U.S. benefits attributable to the project will be new foreign supplies of minerals, tropical products or other items not available from domestic U.S. sources, and these effects will be quantified and analyzed. OPIC pays careful attention to the extent to which a proposed project will displace traditional U.S. exports in foreign markets or generate items for export back to the U.S. market that will result in competition with domestic U.S. manufacturers or farmers, causing loss of employment here.

The starting point for the analysis is the signed application submitted by the prospective investor. The information in the application is analyzed to insure that it is consistent with normal industry practice. In making this determination, the OPIC staff makes frequent use of experts at the Commerce, Labor, and Agriculture Departments, the International Trade Commission (ITC), the U.S. Trade Representative's Office and others. Also consulted are trade data publicized by the Commerce Department and any relevant import investigations made by the ITC. Frequently there is consultation, too, with industry and trade associations, both those representing the investor's industry as well as those representing any industry that might be harmed by the proposed investment. When appropriate, professional, paid consultants intimately familiar with an industry are hired to advise the Corporation.

During the course of these analyses of a project, the investor normally must submit additional detailed information on its proposed project, marketing plans, and other matters. If the project is an expansion of an existing operation, this can include actual trade data related to the previously existing business. As part of its application to OPIC, the investor submits copies of any documents that it has submitted to a foreign government in order to establish or register its investment with that government. These documents, which often contain detailed business projections and undertakings by the investor, are thoroughly checked by the OPIC staff against other submitted information about the project and its likely output, marketing plans, etc.

If necessary to a thorough appraisal, members of OPIC's staff visit the investor's U.S. headquarters and/or plant sites to ascertain firsthand the probable impact of a foreign facility on the United States.

Only when satisfied about what a proposed project will be producing, where it will be selling its output, and what its impact will be on the United States, does OPIC make a decision on investment insurance or financing for such a project.

If the project is in an industry that in the U.S. is particularly sensitive to import competition, OPIC may also include in the insurance contract a provision that prohibits or strictly regulates exports from the project to the United States. Violation of this contractual obligation results in suspension or cancellation of the investor's contract.

OPIC's projections of the number of U.S. jobs created by a project are based initially upon the detailed export and import data required of each applicant. Using Department of Labor labor/output data, OPIC estimates the number of man-years needed to produce the U.S.-made machinery and other items that will be exported as a result of the project through its first five years of operation and subtracts from that figure a similar projection for any projected loss of U.S. jobs as a result of some displaced traditional U.S. exports or new imports which would compete against domestic workers.

OPIC's estimates of new jobs created in the developing nations are based upon each investor's detailed projections of new employment to be created directly by its project. The projections are divided according to whether the new jobs are managerial, technical, or general labor positions. While OPIC will note in its development impact analysis the likely impact of the project on employment in upstream and downstream sectors of the local economy, OPIC does not include in its projections any consideration for these often significant employment and income benefits for persons not hired directly by the OPIC-supported projects. This fact makes OPIC's host country employment estimates conservative, because "non-project" employment and farm income benefits on a net basis are sometimes far more significant than the direct employment by the OPIC-supported project.

Question 3. What kind of regular procedure does OPIC employ to verify, after the fact, what the effects of each project were on the United States host countries.

Answer. OPIC's current procedures for evaluating the effect of OPIC-supported projects resulted from the 1978 legislation. Prior to that legislation renewal OPIC did not have the kind of data about proposed projects necessary to make comprehensive development analyses. This lack of data affected the nature of the follow-up evaluations of the development impact. The 1978 legislation recognized that OPIC had not been given appropriate guidelines on what the Corporation should consider in its development analysis and stipulated that OPIC should prepare and retain a development impact profile on each OPIC-supported project. Knowing the projected developmental effects of a project would permit later follow-up evaluation of the actual development effects. In addition, the conference report accompanying the 1978 legislation indicated the types of factors which OPIC should consider in evaluating development impact.

As a result of this Congressional guidance, OPIC initiated the following new procedure for evaluating the effects of OPIC-supported projects:

1. In consultation with AID, OPIC developed a form to be used by OPIC personnel in evaluating the development impact of projects. This form incorporated the type of factors which had been suggested by Congress in the conference report relating to the 1978 legislation. As a consequence, development impact profiles have been prepared for all projects supported by OPIC after mid-1978. Such profiles increase the significance and usefulness of follow-up evaluations.

2. OPIC made an important change in its standard insurance contract to require investors to cooperate with OPIC in its follow-up evaluations of projects. Prior to this, the standard insurance contract merely required the investor to give OPIC access to the books and records of the investor and the books, records and properties of the foreign enterprise receiving the investment. The revised standard insurance contract has expanded OPIC's access to the investor and foreign enterprise to allow OPIC, during the term of the insurance coverage, to interview authorized representatives of the investor and foreign enterprise relative to any statement, data, or other information furnished to OPIC in connection with the issuance of an insurance contract. Thus, OPIC obtained the contractual right, under insurance contracts issued after mid-1978, to question relevant project and investor personnel about the effect of the project.

OPIC monitors its portfolio of insured investments and financed projects to observe and verify, after the fact, what effects OPIC-backed projects have on the U.S. economy, particularly employment effects, as well as the host country development effects. A number of techniques are used including on-site visits by OPIC officers, written questionnaires to the companies involved and requests to host government development officials and U.S. Embassies whose staffs visit projects.

With in-house computer capacity, recently acquired, OPIC is increasing its ability to monitor its portfolio with greater comprehensiveness and precision.

Following this monitoring procedure, a review is currently underway of projects where the insurance commitment was made during 1976–78. Using field-tested questionnaires, OPIC officers trained in monitoring are making on-site visits of 55 projects. These projects were selected from the portfolio on the basis of several important factors, but development impact and U.S. effects are the most important. With the aid of computer programming techniques the information gathered is compared with the information provided by investors, and checked by OPIC staff, at the time of the original application for OPIC insurance.

Besides examining those individual projects which have a higher potential for some adverse impact on the U.S. economy or upon the local environment, OPIC also obtains verification of compliance with any special contractual undertaking by the investor, such as a restriction on exports to the United States. In a recent case involving a violation of an undertaking by the insured investor to restrict product exports to the United States, OPIC terminated the coverage.

Question 4. Does OPIC require companies to report the actual U.S. procurement which has taken place over the life of the investment? What form does this reporting requirement take? Is any verification made as to the accuracy of the information? What penalties is a company subject to if it files false information?

Answer. An investor generally is not required to report the actual U.S. procurement resuling from a project. At times, however, OPIC seeks detailed information concerning significant initial procurement for specific projects. In addition, verification of continuing purchases of U.S. machinery and other items is part of OPIC's project monitoring.

Material misrepresentations by an investor in statements and data provided to OPIC in connection with an application for insurance or financing would constitute an incurable default under an insurance contract, giving OPIC the right to terminate coverage, and in event of default under a loan agreement, giving OPIC the right to accelerate the repayment of the outstanding balance of the loan.

Question 5. On May 13, 1980, the OPIC Board of Directors adopted an exception to its economic criteria of limiting projects to countries with per capita income below $1,000 if a project should provide significant trade benefits. What projects have been approved since that exception has been adopted?

Answer. OPIC has not approved any project under the Board's "net significant trade benefit" exception to the $1,000 per capita income restriction.

Question 6. The U.S. Labor Department has a sophisticated input/output economic model of the U.S. economy. This was used quite successfully to calculate the impact that the concluded Multilateral Trade Negotiations was likely to have on U.S. employment in the various U.S. industries. To what extent does OPIC utilize this model? Does OPIC consult with the Labor Department on a regular basis with regard to the individual OPIC projects which are under consideration?

Answer. OPIC does not use the input/output model referred to. Such a sophisticated model for the entire United States does not look like an appropriate guide for the analysis of most of the very small projects that OPIC supports or larger projects that do not have any impact (other than the purchase of U.S.-made machinery and other items) on the level of U.S. exports or imports. However, consultations with the Labor Department are underway to see whether its model might be helpful or whether OPIC should modify its own analytical procedures based upon the types of considerations and assumptions the Labor Department uses.

OPIC maintains frequent contact with the Department of Labor as part of normal procedures for analyzing the impact of proposed projects. There are consultations on proposed projects which plan to export some of their production to the United States and on projects in industrial sectors in which the Department has studied the impact of imports on domestic U.S. employment.

Question 7. A number of OPIC insured projects are commercial bank related. Could you explain exactly what is being insured? What U.S. procurement would likely be involved?

Answer. Of the bank investments insured by OPIC in FY 1979, nine were capital infusions in new or expanding bank branches or affiliated financial institutions.

two were equity contributions to development finance companies and eight were loans to unaffiliated commercial and industrial projects.

OPIC insurance of a U.S. bank's equity or branch investment protects the bank's ownership interests against losses due to inconvertibility, expropriation and war, revolution or insurrection. OPIC insurance of a bank's loan assures that the bank will be compensated for defaults in scheduled principal and interest payments which are directly caused by these political risks.

In the case of the capital contributions to branches or affiliated financial institutions, the investments normally provide a portion of the capital base of the local institution at a level which is required by the local banking authorities. These investments do not normally result in significant amounts of procurement in the host country or elsewhere and often become the cash reserves the banks maintain with the host country's central bank. On the other hand, the capital funds provide the basis upon which the branch or affiliated bank is able to operate and to borrow. Commonly, U.S. branches and affiliated banks in developing countries concentrate on financing international trade. These U.S. associated banks are usually very active in financing U.S. exports to these countries.

In FY 1979 OPIC insured banks for loans to three projects. OPIC insured $7,750,000 of loans made by five individual banks that participated in the financing of an oil storage and transshipment terminal in Panama. These loans were for the expansion of facilities for which other loans were insured by OPIC during the previous year. This expansion, involving the construction of a third jetty and related infrastructure, resulted in $7,400,000 of initial U.S. plant and equipment procurement out of the total $9,000,000 financing. U.S. procurement for the initial project construction had been $31,900,000. In addition to this procurement, the project facilitates the efficient and less costly distribution of Alaskan oil to the U.S. East Coast, to refineries in Puerto Rico and potentially to Gulf Coast salt domes for the U.S. Strategic Petroleum Reserve.

In another instance OPIC insured a $2,750,000 U.S. bank loan to the branch of a U.S. company performing metals recovery services under contract with an Egyptian government agency. (OPIC also insured the U.S. firm's $200,000 investment in its branch.) More than 75 percent of the U.S. investments OPIC insured will be spent for U.S. heavy equipment, and additional U.S. equipment will be purchased for project operations in future years.

The third project for which OPIC insured the lenders is the development of a mining and related mineral smelting operation in Botswana. The $25 million loan was made in conjunction with the financial restructuring of the project, which will permit the further development of its mineral deposits. The loan will not result in significant amounts of U.S. procurement, but the loan and associated investments will help to assure the flow of nickel matte to a Louisiana refinery employing 500 people which is dependent on the project for half its feedstock.

Question 8. I understand the OPIC Board intends to adopt guidelines to further strengthen the development focus of OPIC activities in higher-income countries in which it operates. Please describe the Corporation's intentions in this regard.

Answer. OPIC is a development agency. Every project OPIC encourages must have a beneficial impact on the less developed country (LDC) where it will be established. If any project will not have such a beneficial development impact, OPIC will not support it. Removal of the restriction on operations of OPIC programs in upper income LDCs will not change OPIC's commitment to its developmental purpose.

It is in the context of an unaltered commitment to LDC development that the OPIC Board has voted in favor of removing the restriction upon the Corporation's services in the higher income LDC's. This restriction has not resulted in any increase in OPIC's ability to stimulate increased development in the poorer LDC's, but it has resulted in a reduction in OPIC's ability to further the development of the higher income ones which are friendly to the United States, willing trade partners, and looking for private foreign investment to help meet the needs and aspirations of their people. If the Congress removes this restriction, every project OPIC encourages in the higher income countries will continue to have to meet OPIC's development criteria, which were developed in accordance with guidelines from the Congress and in close cooperation with AID.

Furthermore, OPIC's legislation and many of the Board policies and operating guidelines would still require that preferential consideration be given to projects in the poorest nations.

At its August 26, 1980, meeting the OPIC Board will consider a policy statement and guidelines which will reemphasize OPIC's development purpose and its commitment to give preferential consideration to projects in poorer countries. OPIC will provide the Committee with a copy of the policy statement and guidelines after Board action.

Question 9. What are the other industrial countries—our main competitors for exports to the developing countries—doing in the investment insurance field? Please include a discussion of the differences between OPIC and other country programs with respect to rates, coverage, countries or operation.

Answer. Seventeen countries (plus South Africa whose program is inactive) have investment insurance programs similar to OPIC's. They are listed below along with a compilation of the requested information on each.

I. Countries with OPIC-type investment insurance programs: Australia, Austria, Belgium, Canada, France, Federal Republic of Germany, India, Israel, Japan, Korea, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, and the United Kingdom.

II. Basic Objectives of Investment Insurance Programs (OPIC included):

(A) Nine programs have host country development as the primary goal, with the benefit to the domestic economy as a secondary consideration (Australia, Austria, Federal Republic of Germany, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom, and OPIC).

(B) Seven have the benefit to the domestic economy as the primary goal (Belgium, Canada, Grance, India, Israel, Japan, and Korea).

(C) Two have host country development as the sole objective (Norway and Sweden).

III. Location of Projects Eligible for Insurance (OPIC included):

(A) Five programs offer insurance only for investments in non-Eastern bloc developing countries (West Germany,[1] Korea, the Netherlands, Norway, and Sweden[2]).

(B) Four programs offer insurance only for investments in developing countries including those in the Eastern bloc (Switzerland, India, the United Kingdom, and OPIC[3]).

(C) Nine programs offer insurance for investments in all countries whether or not the country is usually considered to be "developing" (Australia, Austria, Canada, France, India, Israel, Japan, New Zealand, and Spain).

IV. Rates and Coverages[4] (rates are annual rates for current coverage):

(A) There are only two countries those rates approach the magnitude of OPIC's[5] (Israel, 1.2 percent; Switzerland, 1.25 percent).

(B) There are nine countries whose rates fall in the range of .75 percent-1.0 percent (Australia, 1.0 percent; Belgium, .75 percent-.8 percent; Canada, 1.0 percent; France, .7 percent-1.0 percent; India, 1.0 percent; the Netherlands, .8 percent; Norway, .8 percent; Spain, 1.0 percent; the United Kingdom, 1 percent).

(C) There are four countries whose rates fall in the range of .5 percent-.74 percent (Austria, .5 percent; Federal Republic of Germany, .5 percent; Japan, .55 percent; Korea, .55 percent).

(D) All of the countries cover the same risks as OPIC (inconvertibility, expropriation and war). In addition, two countries, Japan and Switzerland, also insure against "commercial risk."

Question 10. In testimony, it was noted that "more than 60 percent of initial procurement for the OPIC projects undertaken in the past year will come from U.S. sources, with most of the remainder coming from host country sources." Please provide a more detailed description of what "most" entails—20 percent, 30 percent? Where is the remaining procurement taking place?

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[1] Only those countries with which it has a bilateral agreement.

[2] Usually insures only projects in those countries which are the main recipients of its other developmental aid programs.

[3] OPIC is included here although special legislation is required to operate the program in any Eastern bloc countries. This has been provided for Romania and Yugoslavia and legislation is pending regarding the People's Republic of China.

[4] All programs, except those of Israel, Australia, Canada, and OPIC (see footnote 5), require insureds to purchase all three coverages at a set rate. The four named offer separate coverage for each of the three political risks or combined coverage depending on elections by the insured. Rates are not available for Sweden and New Zealand.

[5] OPIC offers separate or combined coverage for the three political risks with the type of cover elected by the investor. OPIC also quotes different base rates for differnt types of projects, and for each individual project these rates may vary by as much as one-third depending on the degree of risk associated with the project. The rate used here for comparison is the most common, 1.5 percent per year for the three risks combined.

Answer. In FY 1979, total U.S. investment (royalties and fees excluded) in projects was $498,579,222. Initial procurement which was sourced from the United States for these projects is projected to be $330,206,776, representing 66.2 percent of total U.S. project investment. Total initial procurement (based on U.S. and non-U.S. investment sources) for these projects is projected to be as follows:

	Amount
From the U.S. (38.4 percent)	$330, 206, 776
From the host country (35.3 percent)	303, 152, 238
From other LDCs (2.5 percent)	21, 950, 500
From other industrialized nations (23.8 percent)	204, 492, 612

Much of the procurement from other industrialized nations is a result of "tied" export financing provided by those nations for major projects or for the purchase of highly specialized equipment not available from domestic U.S. sources.

Question 11. In your testimony, you indicate that U.S. companies are being outcompeted by our foreign competitors. Would you supply for the record the levels of direct foreign investment undertaken by the U.S. versus its most successful competitors, by investor country, for the past 10 years.

Answer. This testimony referred to the fact that the U.S. is no longer the world's predominant exporting nation. An important reason for this situation is that nations competing with the U.S. aggressively promote foreign investment in a variety of traditional as well as more sophisticated forms, including advance purchase payments, production sharing agreements and technology-for-goods arrangements. A dollar value for these activities is not available, but the impact of them on U.S. business is very obvious when one travels overseas. U.S. competitor nations are supporting and pushing their national companies to invest overseas and "sew-up" markets and new sources of raw materials. Consequently, American companies find it harder, sometimes impossible, to recapture market share or sell U.S.-made machinery, equipment or components to a foreign company or industry which is Japanese-owned or otherwise integrated into a Japanese industrial or trading system or is designed and engineered according to European technical standards.

Question 12. What proportion is direct foreign investment of total investment undertaken in the investor country?

Answer. According to the latest available figures in the Department of Commerce *Survey of Current Business*, in 1978, the net increase in book value of U.S. direct foreign investment was $18.2 billion, including $6.0 billion in developing countries. The net value of fixed non-residential business capital in the United States increased during the same year from $1,631 billion to $1,816 billion, an increase of $185 billion.

Based on these figures, U.S. direct foreign investment was one percent of total business investment undertaken in the investor country.

Question 13. Critics of OPIC claim that OPIC programs have a detrimental effect on the U.S. economy by exporting jobs abroad, that OPIC projects primarily benefit the U.S. multinational corporations rather than serving a broad range of U.S. business interests, and that incorporating a trade purpose in OPIC's mandate will necessarily detract from OPIC's primary developmental objectives. Could you please comment on these criticisms which have been levied against OPIC?

Answer:

Effects on the U.S. Economy

The 83 projects supported by OPIC during fiscal 1979 will create an estimated 16,700 man-years of U.S. employment and will require net U.S. exports of $922 million during startup and the first five years of operation.

During the five-year period from fiscal 1975 through 1979, OPIC insured or financed 563 projects in 60 developing countries. These projects created an estimated 110,300 new man-years of U.S. employment and are expected to generate more than $4 billion in U.S. exports.

The 1978 legislation on U.S. effects analysis codified OPIC's policy. It stipulated that OPIC should deny its services for an investment if it was determined that such an investment is likely to cause significant reduction in U.S. employment. To formalize the process of making such determinations, OPIC established an Economic Impact Analysis Unit. This Unit analyzes proposed projects, corroborating information supplied by the investor by reference to other sources, through consultation with trade associations and industry experts at other government agencies such as Commerce, Agriculture, Labor, the International Trade Commission and the United States Trade Representative. If necessary, OPIC officers also visit the U.S. headquarters and/or plant sites of applicants to assist in analyzing proposed projects. In addition, OPIC hires outside independent specialists to analyze such sensitive industries as textiles and electronics.

This rigorous screening process ensures that OPIC will not support investments overseas that might cause a significant reduction of U.S. employment; and one result is that OPIC has formally rejected 63 applications since 1974 on the grounds of an expected adverse economic impact on the United States.

Serving a Broad Range of U.S. Business Interests

In 1975 the ratio of small business projects was 11.6 percent of the insurance portfolio. Increased efforts since then moved the level to over 30 percent by the end of 1978 and to 30.6 percent at the end of fiscal 1979. As of June 15, 1980, 34 percent of registrations received by the Corporation involved small business participation. This figure may move up or down by the end of fiscal 1980, but it does indicate that the interest of the small business community is increasing.

The ratio of small business enterprises utilizing OPIC's financial services has always been considerably higher than that in the insurance area, but this too has increased significantly. In 1975, for example, 33 percent of OPIC's finance projects were sponsored by small businesses while in fiscal 1979 the figure had risen to 64.3 percent.

Most small businesses are unfamiliar with overseas operations and ill prepared for them. Entry into international markets through LDC investment must be based on having the proper organization and adequate financial strength, knowing what the opportunities are and the risks and being able to deal with the regulations and incentives of the developing countries. The OPIC programs targeted to small business have helped a number of U.S. companies to successfully take advantage of foreign investment opportunities. Because of the OPIC services, growth through such investment is as much a realistic strategy for many U.S. small businesses as it is for larger, more experienced ones.

Effect of Adding a Trade Purpose to OPIC's Development Orientation

The trade purpose, if adopted, will increase the number of developmental projects and transactions which OPIC may legally consider for insurance backing or financial support.

Adding a trade purpose would not detract from OPIC's development objective. That would remain paramount. Every project involving an OPIC insurance and financing commitment, including those with significant U.S. export benefits, would have to meet OPIC's development criteria.

More importantly, however, the broadened authority will make OPIC a stronger development agency. Additional premium and fee income which can be earned from an expanded program should mean more funds for project development in the poorest countries and more funds to support the work of those U.S. private voluntary organizations which concentrate on small scale investment and development. Also, portions of OPIC's program for U.S. small business are supported, under the authority of Section 240 of the Foreign Assistance Act, through the OPIC Board's allocation of net revenues of the Corporation.

The diversification of revenue sources, which the implementation of a trade purpose permits, should put OPIC in an even stronger position financially, better able "to conduct . . . operations on a self sustaining basis" (Section 231 of the Act) without regard to Congressional appropriations.

Similarly, a trade purpose should mean an improved opportunity for OPIC to broaden its insurance portfolio and improve its ability "to conduct its insurance operations with due regard to principles of risk management" (Section 231 of the Act).

As called for under Section 240A of the Act, Congress would continue to receive OPIC's annual Development Report. It covers "the economic and social development impact and benefits of the projects . . . [and] the extent to which the operations of the Corporation complement or are compatible with the development assistance programs of the United States. . . ."

Question 14. Could you please explain the developmental objective served by the OPIC Board's decision of May 13, 1980, to insure a project in Saudi Arabia cited by Mr. Bergsten in his testimony before the Foreign Relations Committee?

Answer. This American-Saudi joint venture project will manufacture large diameter prestressed concrete pipe for desalinization plants, drainage and sewage in one of the expanding Saudi cities. The project's pipe will be a basic element in the establishment of the city's infrastructure and is vital to the success of the entire city concept since concrete pipe can successfully withstand extremely severe desert conditions. The project will utilize local sand, gravel and cement, and will make available a ready supply of pipe at prices lower than comparable imports.

Question 15. Could you provide the Committee with an analysis, by the dollar value of OPIC programs, of the country and company concentration of OPIC programs in the two years before and after the 1978 legislation?

Answer. With respect to country concentration, the impact of the 1978 legislation can be seen in the dollar value of OPIC insurance written after this legislation was passed compared with insurance written before. In the following tables the two calendar years prior to the 1978 legislation (1976–77) are compared with the first two calendar years including and immediately following the year in which the new legislation was passed (1978–79). The three major OPIC programs—inconvertibility, expropriation, and war/revolution/insurrection—are compared using the "Maximum Insured Amounts" of new business written during these years. The countries selected are the ten which at the end of fiscal year 1975 represented the greatest concentrations of outstanding insurance ranked by dollar value.

The most instructive conclusions to be drawn from the first three tables, ranking countries, are obtained from an examination of the "all others" category. This category accounted for only 31–33 percent of the insurance value at the end of fiscal year 1975 for all three insurance coverages. Especially for expropriation coverage, the new business written during the two years immediately preceding the 1978 legislation generally followed this past trend.

After the passage of the 1978 legislation, however, earlier-year country concentration patterns began to change dramatically. The figure, for instance, in the "all others" category for new expropriation coverage written jumped from 36.2 percent in 1976–77 to 72.3 percent in 1978–79. The most significant drop among the top ten was for Brazil, and the most significant rise was for Indonesia. No similar conclusions can be drawn from looking at the before-and-after dollar value for the inconvertibility coverage program.

This pattern was repeated, but to a much lesser degree, for OPIC's war/revolution/insurrection ("W/R/I") insurance program. The top ten countries in terms of outstanding W/R/I insurance for the fiscal year 1975 baseline accounted for approximimaately 67 percent of the total outstanding value of W/R/I insurance. Yet by 1976–77, these same ten countries had already shown a marked decrease in new business volume in the W/R/I insurance program with "all others" by 1976–77 already accounting for almost 61 percent of the new W/R/I insurance contracts written.

INCONVERTIBILITY INSURANCE PROGRAM

Country	Country ranking, June 30, 1975 total amount of outstanding insurance (all projects)		New insurance issued, calendar years 1976–77		New insurance issued, calendar years 1978–79	
	Rank	Percent [1]	Amount	Percent [2]	Amount	Percent [2]
Brazil	1	12	$182, 613, 733	33. 3	0	0
Korea	2	11	14, 908, 110	2. 7	$18, 240, 172	4. 0
Dominican Republic	3	10	16, 024, 881	2. 9	1, 391, 979	. 3
Philippines	4	8	8, 609, 032	1. 6	8, 481, 965	1. 9
Indonesia	5	6	33, 681, 750	6. 1	51, 840, 000	11. 3
Argentina	6	5	0	0	0	0
India	7	5	5, 417, 347	1. 0	3, 766, 200	. 8
China (Taiwan)	8	5	49, 235, 079	9. 0	11, 422, 304	2. 5
Iran	9	3	15, 231, 915	2. 8	1, 353, 024	. 3
Columbia	10	2	0	0	0	0
All others	NA	33		40. 6		78. 9

[1] Numbers represent percentages of worldwide exposure in total OPIC inconvertibility portfolio.

[2] Numbers represent percentages of worldwide new business.

NA, Not applicable.

EXPROPRIATION INSURANCE PROGRAM

Country	Country ranking, June 30, 1975 total amount of outstanding insurance (all projects)		New insurance issued, calendar years 1976–77		New insurance issued, calendar years 1978–79	
	Rank	Percent [1]	Amount	Percent [2]	Amount	Percent [2]
Jamaica	1	14	0	0	$1,982,000	0.3
Brazil	2	11	$200,251,733	35.5	1,170,000	.2
Dominican Republic	3	9	17,939,881	3.2	1,604,479	.3
Korea	4	9	14,411,278	2.6	18,227,422	3.2
Philippines	5	6	10,116,532	1.8	8,481,965	1.5
Indonesia	6	6	24,726,750	4.4	63,423,000	11.2
China (Taiwan)	7	4	39,685,079	7.0	11,422,304	2.0
India	8	4	2,724,347	.4	945,000	.2
Guinea	9	3	0	0	0	0
Ghana	10	3	50,000,000	8.9	50,000,000	8.8
All others	NA	31		36.2		72.3

[1] Numbers represent percentages of worldwide exposure in total OPIC expropriation portfolio.
[2] Numbers represent percentages of worldwide new business.

NA. Not applicable.

WAR, REVOLUTION, INSURRECTION INSURANCE PROGRAM

Country	Country ranking, June 30, 1975, total amount of outstanding insurance (all projects)		New insurance issued, calendar years 1976–77		New insurance issued, calendar years 1978–79	
	Rank	Percent [1]	Amount	Percent [2]	Amount	Percent [2]
Jamaica	1	16	0	0	0	0
Korea	2	11	$13,781,278	3.6	$10,591,862	1.9
Dominican Republic	3	10	7,651,800	2.0	801,000	.1
Brazil	4	9	68,521,952	18.1	0	0
Philippines	5	5	8,809,240	2.3	7,581,965	1.4
Indonesia	6	5	18,290,750	4.8	46,923,000	8.5
China (Taiwan)	7	4	30,592,761	8.1	11,242,066	2.0
India	8	3	2,024,097	.5	945,000	.2
Singapore	9	2	0	0	5,760,000	1.0
Guinea	10	2	0	0	0	0
All others	NA	33		60.6		84.9

[1] Numbers represent percentages of worldwide exposure in total OPIC W/R/I portfolio.
[2] Numbers represent percentages of worldwide new business.

NA. Not applicable.

Between 1976–77 and 1978–79 OPIC significantly increased the percentage of U.S. small business projects in the total number of new insurance commitments. At the same time the dollar value of insurance for the ten companies which purchased the most coverage increased after the 1978 legislation as compared to that of the top ten companies during the two years prior to the legislation.

As shown in the following tables, however, the largest coverages pertain to U.S. investments in capital intensive energy and minerals projects, reflecting OPIC's recent special emphasis on these sectors.

The same companies have not generally remained in the top ten from 1976–77 to 1978–79. For example, only one of the top ten companies for inconvertibility insurance for 1976–77 appears again for the 1978–79 period.

INCONVERTIBILITY INSURANCE PROGRAM—TOP 10 COMPANIES BASED ON NEW INSURANCE

Company	Issued during Calendar year 1976–77		Company	Issued during Calendar year 1978–79	
	Insurance	Percent [1]		Insurance	Percent [1]
1. Celanese Corp	$41,950,000	7.7	Gulf Oil Egypt Ltd	$75,000,000	16.4
2. ITT	32,503,318	5.9	Chase Manhattan Bank	66,000,000	14.4
3. Dow Chemical Co	29,520,000	5.4	Freeport Mineral Co	27,000,000	5.9
4. Continental Enterprises	24,274,000	4.4	American Cable & Radio	24,840,000	5.4
5. Morgan	21,285,000	3.9	Mcbile International Petroleum Corp.	15,018,800	3.3
6. Dresser Industries Inc	17,217,500	3.1	Citibank	10,308,221	2.3
7. Gulf & Western	10,513,100	1.9	Firestone Tire & Rubber Co.	9,336,600	2.0
8. Agrico Chemical Co	10,320,000	1.9	Coca Cola Co	9,000,000	2.0
9. J. M. Huber Corp	10,200,000	1.9	Union Carbide Corp	9,000,000	2.0
10. Motorola Asia Ltd	10,164,678	1.9	Kimberly-Clark Corp	8,700,000	1.9
All others		62.0			47.4

[1] Numbers represent percentages of worldwide new business.

EXPROPRIATION INSURANCE PROGRAM—TOP 10 COMPANIES BASED ON NEW INSURANCE

Company	Issued during Calendar years 1976–77		Company	Issued during Calendar years 1978–79	
	Insurance	Percent [1]		Insurance	Percent [1]
1. Celanese Corp	$37,950,000	6.7	Chase Manhattan Bank	$50,900,000	9.0
2. The Dow Chemical Co	29,520,000	5.2	NCRA–G Inc	50,000,000	8.8
3. ITT	22,083,318	3.9	Freeport Minerals Co	27,000,000	4.7
4. Continental Enterprises Bermuda Ltd.	18,150,000	3.2	American Cable & Radio Corp.	24,840,000	4.4
5. Citibank	13,148,161	2.3	Fluor Engineers & Constructors Inc.	20,475,000	3.6
6. Gulf & Western Americas Corp.	12,088,100	2.1	Citibank	18,939,221	3.3
7. J. M. Huber Corp	10,200,000	1.8	Mobil International Petroleum Corp.	15,019,200	2.6
8. Motorola Asia Ltd	10,164,678	1.8	Uniroyal Inc	11,232,000	2.0
9. General Instrument Corp	7,774,670	1.4	The Coca Cola Co	9,000,000	1.6
10. Agrico Chemical Co	7,740,000	1.4	Gulf Oil Egypt Ltd	5,000,000	1.3
All others		70.2			58.7

[1] Numbers represent percentages of worldwide new business.

WAR, REVOLUTION, INSURRECTION INSURANCE PROGRAM—TOP 10 COMPANIES BASED ON NEW INSURANCE

Company	Issued during Calendar years 1976–77		Company	Issued during Calendar years 1978–79	
	Insurance	Percent [1]		Insurance	Percent [1]
1. Continental Enterprises	$48,660,498	12.9	Gulf Oil Egypt Ltd	$75,000,000	13.6
2. ITT	22,083,318	5.8	Chase Manhattan Bank	66,000,000	11.9
3. J. M. Huber Corp	10,200,000	2.7	Fluor	57,355,000	10.4
4. Motorola	10,164,678	2.7	Freeport Minerals Co	27,000,000	4.9
5. Del Monte Corp	9,539,500	2.5	Northville Terminal Corp	17,062,500	3.1
6. Chemtex Fibers Inc	8,167,500	2.2	Mobil International Petroleum.	15,019,200	2.7
7. Dresser Industries Inc	7,861,500	2.1	Motorola	12,669,500	2.3
8. Control Data	7,186,238	1.9	Citibank	12,198,046	2.2
9. Squibb Middle East	7,002,000	1.9	General Electric	12,036,828	2.2
10. General Instrument Corp	5,663,852	1.5	Uniroyal Inc	11,232,000	2.0
All others		63.8			44.7

[1] Numbers represent percentages of worldwide new business.

Question 16. If the $1,000 per capita GNP country limitation were lifted, what assurances would the Committee have that OPIC would continue to give particular attention to the poorest countries? Would you suggest any criteria for ensuring continuation of this poorest country focus?

Answer. If an amendment were adopted to remove the $1,000 per capita restriction on the availability of OPIC services, OPIC, as reqired by law, would continue to give preferential consideration to projects in the porest countries. Section 231 of the Foreign Assistance Act of 1961, as amended, provides that OPIC "shall especially . . . give preferential consideration to investment projects in less developed countries that have per capita incomes of $520 or less in 1975 United States dollars . . . ." No additional legislation appears necessary for insuring continuation of this poorest country focus.

The policies implementing this requirement to give "preferential consideration" to projects in the poorest countries include the following:

1. Project identification and promotional activities, including the Investment Mission Program, are focused on the poorest countries.
2. The feasibility study grant program and the minerals and energy programs favor investment and projects in the poorest countries.
3. Maximum flexibility is used in negotiating the terms and conditions of OPIC support for projects in the poorest countries.
4. OPIC staff generally must devote more time and effort to develop, process and negotiate coverage for projects in the poorer developing countries than in the more advanced ones. Reflecting this, OPIC staff performance measurements and rewards give proper credit for the added work devoted to projects in the poorer developing countries.

Question 17. Could you describe your small business and minority enterprise programs? What plans does OPIC have to strengthen the program in the future?

Answer. Several amendments to the Foreign Assistance Act in 1978 encouraged OPIC to increase small-scale private enterprise development and U.S. small business participation in OPIC programs by (1) restricting OPIC's direct loans to projects sponsored by or significantly involving U.S. small businesses or cooperatives, (2) calling on OPIC to seek to increase the number of projects sponsored by or significantly involving U.S. small business to at least 30 percent of all projects insured, guaranteed or reinsured, and (3) authorizing OPIC to allocate up to 50 percent of its annual net income, after provisions for additions to reserves, to fund innovative activities involving small business enterprise.

OPIC gave immediate attention to the implementation of these directives and began the development of a comprehensive program to encourage and facilitate the increased participation by small businesses and cooperatives in overseas investment. The actions taken fall into six general categories.

1. *OPIC's Management strengthened the Corporation's capacity to provide needed services.*—OPIC created a task force to recommend new or improved services to offer small businesses. OPIC's Board endorsed these recommendations described below in July 1978. The Board continues to receive, as a regular item on its agenda, a written Management report on OPIC's small business and cooperatives activities.

To strengthen the OPIC line Departments' abilities to assist small business competently and efficiently, a Small Business Officer and two Small Business Counselors were appointed for each Department. The former would assist the Departments' Vice Presidents to develop new policies, programs and procedures which would support the Corporation's new commitment to small businesses. The Small Business Counselors were selected for their breadth of experience and their abilities as consultants to business executives exploring overseas trade and investment strategies and opportunities.

OPIC's President is a member of President Carter's Interagency Task Force on Small Business in International Trade and Investment along with the President of Eximbank, the Administrator of the Small Business Administration and the Assistant Secretary of Commerce for International Trade. An OPIC Vice President represents OPIC on the backup staff committee of this Interagency Task Force.

2. *OPIC began a comprehensive and intensive campaign to inform small businesses on the OPIC programs and their value.*—The principal elements of this campaign were:

(a) A "Smaller Business Directory of Services," which is a brief introduction to LDC investing with OPIC support. It was mailed to over 10,000 firms, and it has been made available through such channels as the Commerce Department and SBA Field Offices.

(*b*) A "Guide for Executives of Smaller Businesses," which is a more comprehensive description of OPIC services to smaller companies. It is available on request, and over 5,000 have been distributed.

(*c*) OPIC-sponsored all-day conferences. Since January 1979, for instance, there have been six of these conferences in cities around the country. Each was conducted by the OPIC President and four other senior officers. By having small business trade associations as conference cosponsors, by offering small business seminars as a highlight of the conferences, and by keeping the conference registration fee a modest one, it was possible to attract a large number of small business executives who are interested in the market growth opportunities which LDC investment and trade offer. The number of registrants at each of these conferences was in the 150–200 range.

(*d*) Fifty all-day conferences (since March 1978) conducted by OPIC and the three other members of the President's Task Force. With the average registration of almost 200 businessmen and women in cities around the country, the total attendance was 10,000.

(*e*) OPIC participation in the Conferences on Small Business, one in each of the fifty states, which led to the February 1980 White House Conference on Small Business.

(*f*) Two OPIC conferences on trade and investment specifically designed to attract minority-owned enterprise. One was March 15, 1979, in Miami, and the other was June 10, 1980, in New York City.

(*g*) During the past year and a half, OPIC officers have made presentations before over 25 industry and trade association meetings of minority business firms. Examples are the American Business Council, the Dallas Regional Minority Purchasing Council, the Chicago Economic Development Corporation and the National Bar Association.

This kind of activity substantially increased the coverage of OPIC in business publications and resulted in a significant increase in requests for further information on OPIC services.

3. *Instituted services and procedures which make it easier for small businesses around the country to gain access to OPIC programs.*—As a service to small business OPIC installed a toll-free telephone line (1–800–424–OPIC). This service, which generates 150–175 calls to OPIC each month, has been emulated by other member agencies of the President's Task Force. This service gives small business access not only to information on OPIC programs (and those of other USG agencies), but also to the OPIC Small Business Counselors, investment professionals who can discuss a caller's investment strategy and business plans.

In 1978, the OPIC Board authorized on a trial basis a new procedure under which a small business could obtain OPIC insurance through its own licensed insurance broker. It would no longer be necessary for a small business to deal directly with OPIC in Washington in order to register or to apply for insurance or to amend or renew the coverages. OPIC, rather than the small business, pays the broker's commissions. Following a review of this trial period the OPIC Board made this service to small business a permanent one.

4. *Adopted new OPIC programs and liberalized others, thereby giving small businesses more opportunities for LDC investment with OPIC insurance and financing support.*—In OPIC's finance program the minimum loan amount was reduced from $300,000 to $100,000 as a means to accommodate more small business projects. In exceptional cases, OPIC is willing to lend lesser amounts, even though OPIC's cost of analyzing, negotiating and closing a loan of that size cannot be covered by the prospective interest income which such a loan will produce.

In a further attempt to meet the loan needs of small business borrowers, OPIC made loans to two U.S. intermediary investment companies which specialize in making such small loans. One of those investment companies is minority-owned. In both cases OPIC has made companion grants to cover a portion of the added administrative costs which those companies would incur in relending the OPIC funds.

OPIC's new political risk coverage for "on-demand" letters of credit, a particularly important service for U.S. contractors operating overseas, has been expanded to provide coverage for sub-contractors as well. Many of these are small businesses. In addition, OPIC counselors will help the smaller contractor obtain these letters of credit when their bank is unfamiliar with international business or unwilling to undertake such a foreign risk.

5. *Made certain OPIC services less costly to U.S. smaller businesses.*—The OPIC insurance registration fee has been reduced for a small business from $100 to $50.

Loan closing costs, which include consultant fees, accounting and legal fees and document preparation, tax and recording costs and which the borrower normally assumes, can be disproportionately high in international transactions. When OPIC makes loans to smaller businesses, OPIC is willing to absorb a portion of these costs in order to remove a significant cost disincentive which affects small business investment decisions.

6. *OPIC has services which help a small business reduce the chances that an LDC investment will be unsuccessful and turn into a catastrophic financial loss.*—A small company is less able to survive a complete or even a sustained partial loss in its overseas operations. Particular care therefore must proceed its original investment decision. OPIC procedures try to ensure that the necessary care is taken.

OPIC Small Business Counselors help companies identify, understand and plan for conditions which make carrying on an LDC business complicated and uncertain.

OPIC conducts Investor Missions designed to give the small business executive a sophisticated introduction to investment sites in LDC's. For those not joining such a mission, OPIC's Door Opener Service offers an alternative. The company executive obtains a tailor-made introduction to the country, its government officials and its business leaders.

OPIC's Investment Survey Program is another service which encourages a U.S. company to make a careful pre-investment analysis of a business opportunity. Because OPIC is willing to share a portion of the costs of such a survey, companies are willing to discuss with OPIC investment officers the content and process of a proposed survey. No survey contract is signed until the OPIC officer and the company agree that the company's study will cover the pre-investment work which is necessary for a secure investment decision. By increasing to 75 percent the OPIC participation in a smaller company's survey costs, rather than the 50 percent participation offered to larger companies, OPIC further demonstrates its interest in helping smaller U.S. companies to undertake careful and comprehensive pre-investment analysis and planning.

When a U.S. small business applies for an OPIC loan but has not completed the pre-investment work the prospective project requires, OPIC, as part of its own pre-commitment review, will obtain the advice of consultants. Rather than charge this cost entirely to the small business borrower, which is the usual commercial and OPIC practice, OPIC will absorb the major portion of those costs. Cost-conscious borrowers, therefore, get not only OPIC loan support but also a second, complementary analysis of the soundness of the proposed investments.

The Results of the OPIC Preferential Services to Smaller Business.—During the fiscal year ended September 30, 1979, 31 percent of OPIC insurance contracts were issued to small businesses and cooperatives. They were investors in 28 percent of all projects involving OPIC insured investments. Forty percent of the registrations for insurance during that year were issued to such firms.

Of the fourteen financing commitments during 1979, nine were to small business projects, and three of these are minority-owned.

Over half of the participants in the 1979 OPIC Investor Missions were small businesses. Six of eight OPIC feasibility study participations went to small businesses.

Funds expanded, under authority of Section 240 of the Act, were $2,335,450 during 1979. These funds paid for a number of the small business services described above and were used to augment the loss reserve of the Corporation's Direct Investment Fund of loans to small businesses and cooperatives.

This small business program will continue, and OPIC's program will be strengthened, as well. First, there will be OPIC participation in small business workshops and courses which the Commerce Department is arranging in strategic planning and foreign investment.

Second, because of the current financial strength of the Corporation, OPIC is in a position to help create or expand U.S.-owned service and investment groups to supply financial, investment and trade services to small business. Discussions which may lead to partial OPIC funding of such a group are underway.

Third, the Corporation is in the process of developing a services marketing program for the 1980's. While the focus of this program necessarily will be on those U.S. business sectors and those kinds of investment transactions which will contribute most to LDC development, an important secondary consideration is attracting small U.S. businesses to OPIC and bringing the Corporation's services to those companies whose overseas expansion so depends on them.

Because much of the legislative direction with respect to OPIC programs for small business also explicitly includes cooperatives, OPIC has taken steps to involve those business organizations in LDC investment.

There are over 7,000 farmer cooperatives in the United States. Because the dramatic rise in exports of U.S. farm products has been fairly recent, many of these cooperatives are still in the process of strengthening their abilities to participate in overseas business upon which such a large share of farm income now depends.

Of course, U.S. cooperatives have been active for years in LDC economic and social development programs. Much of this has been AID funded and coordinated through the Advisory Committee on Overseas Cooperative Development.

ACOCD asked OPIC to work with them to define ways U.S. cooperatives can complement their purely development contribution to the LDC's with business investments. These investments would benefit American farmers as well as employees in the U.S. transportation and port operations service industries, which handle farm commodity exports and needed farm supply imports.

OPIC already has supported cooperative enterprises in the LDCs through loan guaranties benefiting the U.S. Credit Union National Association's loan program for cooperatives development in Latin America, loans to two cooperatives in Latin America, and political risk insurance on investments by U.S. agribusiness cooperatives in a petroleum exploration and development project in Africa.

OCCIDENTAL PETROLEUM CORP. RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. Could you relate for the Committee your company's experience in using OPIC? Please list the countries in question.

Answer. Our Chemical Division has held about 25 OPIC policies totalling over $30,000,000 in coverage for war risk, expropriation and/or nonconvertibility in Argentina, Venezuela, Brazil and Singapore. Current coverage in the amount of $6.7 million is held in these same countries, except for Argentina. Our oil and gas division has no policies in effect, nor have any been issued in the past.

Question 2. In which developing countries has your company invested in which OPIC programs are not available?

Answer. Peru, Bolivia, Libya, Argentina, Colombia, and China.

Question 3. Approximately what percent of your overall LDC business is insured or guaranteed by OPIC currently?

Answer. Less than 1 percent insured.

Question 4. What information are you required to provide OPIC prior to approval of your project? What follow-up material are you required to provide?

Answer. A full description of the investment to be made, including copies of all relevant contracts, and the completion of a lengthy application involving environmental and economic data, including profitability, balance of payments, effect on United States and host country, jobs creation, etc.

Question 5. In making an assessment of whether or not you will invest in a project, how much weight is given to the existence or non-existence of OPIC?

Answer. In areas where we consider the political risks to be high we will avoid significant investment unless OPIC or similar protection is available.

Question 6. In your experience with OPIC insured projects, approximately what percent of initial procurement related to the project originates from the United States? After 5 years, is the investment still relying upon U.S. exports in order to remain operational?

Answer. In most of Occidental's oil and gas projects both the initial and long term procurement is principally from the United States.

Question 7. What markets are the products of foreign investments usually destined for? Is production mainly for local consumption, export to other LDC's or exports to developed countries?

Answer. Production is usually destined for all markets, including local, LDC's and developed countries.

Question 8. When did your company begin to invest abroad?

Answer. Since the early 1960's.

(a) What has been the trend in the level of your company's employment in the United States since that time?

Occidental's U.S. employment as well as foreign employment has trended strongly upward since that time.

Question 9. Does your company plan to increase its exposure abroad in the future? Why, or why not?

Answer. Occidental intends to continue its foreign oil and gas exploration and development investments as the most favorable prospects for sizeable discoveries are generally found in areas that have not been thoroughly explored.

Question 10. Could you describe what characteristics your company looks for in determining whether or not a foreign investment opportunity looks favorable?

Answer. Speaking from the standpoint of oil and gas development, Occidental looks for:

1. Favorable geologic setting.
2. Feasible operational conditions.
3. Contract terms allowing a satisfactory economic return, in the event of successful operations.
4. Sanctity of contract and low political risk.

Question 11. How would you rate each of the following in importance in assessing whether to invest in a project in a developing country? Quick payout local partner in venture, OPIC insurance availability?

Answer. Payout in oil and gas developments is normally of high importance.

Local partner is seldom feasible in developing countries because the capital demands for oil and gas development are usually too great and the technology is not available to local partners.

OPC insurance availability, as in the answer to No. 5 above, would be important in areas where political stability is uncertain.

UNION CARBIDE CORPORATION,
Washington, D.C., July 31, 1980.

HON. FRANK CHURCH,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR SENATOR CHURCH: This is in response to your letter of June 30, 1980 concerning my testimony on S. 2186, a bill to reauthorize OPIC, and the follow-up questions attached to your letter concerning those proceedings.

At the outset, let me mention that I testified before your Committee on behalf of the United States Chamber of Commerce, and alluded to some specific experiences of Union Carbide Corporation. In reviewing your questions concerning the use of OPIC, it is virtually impossible to answer them on the basis of such a large organization as the U.S. Chamber. However, we did feel it would be useful to respond to your questions, and we have done so reflecting only those experiences of Union Carbide Corporation.

We appreciate your interest, and that of your Committee, in OPIC, since we firmly believe that it has the potential of not only fulfilling its developmental mission but also the ability to enhance exports for the United States.

Sincerely,

R. M. BRENNAN,
Director, International Affairs.

UNION CARBIDE CORP. RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. Could you relate for the Committee your companies' experience in using OPIC? Please list the countries in question.

Answer. We have made use of OPIC insurance in over 30 countries during the time that OPIC or its predecessor organization was in existence in virtually every part of the developing world. We have let most of these policies lapse because, in our opinion, the political situation was no longer one of extremely high risk. We currently have OPIC coverage in the Sudan, Ghana, and Nigeria, and Egypt. We have recently let our policies lapse in the Ivory Coast and Kenya and Iran. In the instance of the first two countries, we felt that the political risk had become relatively low. In the case if Iran, we had essentially withdrawn from the business in that country about one year before the overthrow of the Shah.

Question 2. In which developing countries has your company invested in which OPIC programs are not available?

Answer. It is difficult to answer this question without some form of time frame.

Question 3. Approximately what percent of your overall LDC business is insured or guaranteed by OPIC currently?

Answer. Probably less than 5 percent of our total developing country investment.

Question 4. What information are you required to provide OPIC prior to approval of your subject? What follow-up material are you required to provide?

Answer. We supply an initial project study, financial data, lists of minority contacts, government approvals required, marketing information, etc. Follow-up information supplied to OPIC is basically clarifying answers submitted in the original application form and, of course, a policy renewal form each year.

Question 5. In making an assessment of whether or not you will invest in a project, how much weight is given to the existence or non-existence of OPIC?

Answer. Our basic assessment, of course, is based on the commercial viability of the project itself and whether or not it's politically viable from the standpoint of the host country. We then conduct a risk assessment of the investment environment. If the risk is acceptable, but unpredictable, we would then seek OPIC coverage.

Question 6. In your experience with OPIC insured projects, approximately what percent of initial procurement related to the project originates from the United States? After 5 years, is the investment still relying upon United States exports in order to remain operational?

Answer. Originally, about 30 to 50 percent of the initial procurement related to these projects comes from the United States. After 5 years, about 30 percent comes from the United States. This is not necessarily product totally sourced by Union Carbide, but in many instances, other U.S. suppliers.

Question 7. What markets are the products of foreign investments usually destined for? Is production mainly for local consumption, export to other LDC's or exports to developed countries?

Answer. The local market is the major outlet for our production in the host country.

Question 8. When did your company begin to invest abroad?

Answer. Some of our foreign investments go back as far as the 1920's.

Question 9. What has been the trend in the level of your company's employment in the United States since that time?

Answer. U.S. employment levels have continued to increase since we began our initial foreign investments.

Question 10. Does your company plan to increase its exposure abroad in the future? Why or why not?

Answer. We prefer to use the word "opportunities" rather than exposure, and yes, we plan to pursue them in the future, particularly in such areas as Africa.

Question 11. Could you describe what characteristics your company looks for in determining whether or not a foreign investment opportunity looks favorable?

Answer. Our primary criteria is whether or not the project has long term commercial viability.

Quetsion 12. How would you rate each of the following in importance in assessing whether to invest in a project in a developing country? Quick payout, local partner in venture, OPIC insurance availability?

Answer. The preponderance of our foreign investments are for the long term and looking for a return over the longer term. On a scale of 1 to 10, we would rate local partners a 5, and OPIC insurance availability a 6.

AFL–CIO's Responses to Additional Questions Submitted for the Record

Question 1. You indicate that OPIC facilitates the transfer of U.S. jobs abroad even though OPIC will not approve any project which results in a runaway plant. Has the AFL–CIO reviewed OPIC's procedures for judging whether or not a project will result in a runaway plant? Do you have any suggested improvements in the procedures?

Answer. The issue of whether or not OPIC will "approve any project which results in a runaway plant" was covered by the AFL–CIO testimony. It showed that runaway industry is still encouraged. Clearly the projects do result in runaway production. The OPIC Board does not, as we understand it, review projects generally for insurance that do not exceed $25 million or $4.5 million for investment. That can involve a great many "runaway plants" in many parts of the world. Many employers, seeking insurance or grants, either cannot or will not accurately predict where the output of the plant will be sold. Since there is not monitoring or knowledgeable supervision of the transfers, it is clear to us that the procedures for preventing such runaways are inadequate. In most countries of the world the provisions for investors encourage exports and the data we presented to the Committee show that much of the exporting is back to the United States or in competition in third markets with potential U.S. exports. We understand that in textiles, there is a provision that if 5 percent or more of the production is exported back to the United States, there is a revocation of the guarantee by OPIC. But that does not apply to other industries. Some of the reports claim that by moving overseas, employment is expanding in other areas. That kind of report in and of itself states that employment is lost in the United States.

Question 2. Why has the labor seat on the OPIC Board of Directors remained vacant since 1978?

Answer. It has been our fear that the labor seat on OPIC could be self-defeating for a labor leader who must be elected by his membership, particularly in view of the record of OPIC in matters affecting and exporting American worker's jobs.

We also have been concerned that any advantage to serving on the Board and being in a position to observe OPIC would be outweighed by the impression that would be given of labor's support for OPIC activities. However, at this time the AFL-CIO is giving further consideration toward the filling of this post.

SEABOARD ALLIED MILLING CORP. RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. Could you relate for the Committee your companies' experience in using OPIC? Please list the countries in question.

Answer. We have utilized OPIC insurance and financial programs in Guyana and Ecuador in South America, and Sierra Leone, Liberia and Nigeria in West Africa, where we have built or further developed five flour mills, two feed mixing plants and one shrimp and fishing trawler operation.

Question 2. In which developing countries has your company invested in which OPIC programs are not available?

Answer. We have not entered any developing countries in which OPIC programs are not available.

Question 3. Approximately what percent of your overall LDC business is insured or guaranteed by OPIC currently?

Answer. We are utilizing OPIC insurance and guaranties in four of the five LDC's where we presently operate.

Question 4. What information are you required to provide OPIC prior to approval of your project? What follow-up material are you required to provide?

Answer. We are required to provide OPIC details of our corporation, details of the project in question, together with the effect it has on the United States and less developed countries. Since it has been awhile since we sought approval on a project, I am not aware of what changes and new procedures may have been introduced.

Question 5. In making as assessment of whether or not you will invest in a project, how much weight is given to the existence or non-existence of OPIC?

Answer. We would not invest in a project in an LDC if OPIC did not exist in that country.

Question 6. In your experience with OPIC insured projects, approximately what percent of initial procurement related to the project originates from the United States? After 5 years, is the investment still relying upon U.S. exports in order to remain operational?

Answer. In our OPIC insured projects, we used a large quantity of prefabricated construction material and a good deal of machinery from the United States. All our overseas flour mills grind 100 percent United States wheat, and almost all the remainder of our supplies comes from the United States as well.

Question 7. What markets are the products of foreign investments usually destined for? Is production mainly for local consumption, export to other LDC's or exports to developed countries?

Answer. In our operations, all the flour and mixed feeds are produced for local consumption. We have some export of unprocessed millfeed from the LDC to the EEC.

Question 8. When did your company begin to invest abroad?

Answer. Our company began to invest abroad about 14 years ago.

Question 9. What has been the trend in the level of your company's employment in the United States since that time?

Answer. Since we began investing abroad, our employment in the United States has steadily increased.

Question 10. Does your company plan to increase its exposure abroad in the future? Why, or why not?

Answer. It is our intention to double the size of our Nigerian flour mill this coming year, and we have another investment in Nigeria which we are presently considering. Our production capacity in the other flour mills is always being steadily increased on a year-to-year basis.

Question 11. Could you describe what characteristics your company looks for in determining whether or not a foreign investment opportunity looks favorable?

Answer. We employ the following rule of thumb in determining whether or not our foreign investment opportunity is of interest to us.

(*a*) We prefer food processing industries.

(*b*) We don't like extractive industries, which remove resources never to be replaced, as this causes political problems.

(*c*) Along the same lines, we prefer to import our raw material so that we are not using LDC resources.

(*d*) We like import substitution businesses.

(*e*) The product should be able to be manufactured in the LDC, and sold at a price that is favorable compared to the price of the imported item on a non-tariff basis. In other words, the manufacturing should be economically viable, and not dependent on the existence of a tariff which is always subject to removal.

(*f*) We seek a rapid payout, many times faster than the United States.

(*g*) The relationship between the LDC and the United States should be workable. In other words, we don't like to work in a country where Americans are actively disliked.

Question 12. How would you rate each of the following in importance in assessing whether to invest in a project in a developing country? Quick payout, local partner in venture, OPIC insurance availability?

Answer. (*a*) OPIC availability. (*b*) Quick payout. (*c*) Local partner in venture.

Question 9. What has been the trend in the level of your company's employment in the United States since that time?

Answer. Since we began investing abroad our employment in the United States has continued to increase.

Question 10. Has the growth overseas been [illegible] the expense of growth in the United States? (Why?)

Answer. It is not difficult to decide [illegible] which we have [illegible] in which we are presently manufacturing, their growth has [illegible] in the other [illegible] is being steadily increased on a year-to-year basis.

Question 11. Would you describe what [illegible] your company's decision in determining whether or not a foreign investment opportunity looks favorable?

Answer. We employ the following criteria in determining whether or not foreign investment opportunity looks favorable:

(1) We prefer [illegible] manufacturing industries.

(2) We don't like extractive industries, which require resources to be exploited as this causes political problems.

(3) [illegible] the same lines, we prefer [illegible] so that we are not a large LDC employer.

(4) [illegible]

(5) The product should be able to be manufactured in the LDC and sold at a price that is favorable compared to the price of the imported item on a [illegible] basis. In other words, the investment should be economically viable, and not dependent on the existence of a tariff which is always subject to removal.

(6) We need a rapid growth, more than [illegible] in the United States.

(7) The relationship between the LDC and the United States should be such that, in other words, we don't [illegible] a country whose directions are [illegible].

Question 12. [illegible] the following in [illegible] whether or not to invest in a [illegible] (b) [illegible] (c) [illegible]

Answer. (a) [illegible] (b) [illegible]

APPENDIX

National Foreign Trade Council, Inc.,
New York, N.Y., June 12, 1980.

Hon. **Frank Church,**
Chairman, Committee on Foreign Relations,
U.S. Senate,
Washington, D.C.

Dear Senator Church: The National Foreign Trade Council appreciates the opportunity to submit the enclosed statement concerning the Overseas Private Investment Corporation Act (S. 2186) in connection with your current hearings on this legislation. It is respectfully requested that this statement be included in the record of the hearings.

Sincerely,

Richard W. Roberts, *President.*

Enclosure.

MEMORANDUM OF COMMENTS ON CURRENT PROPOSALS CONCERNING OVERSEAS PRIVATE INVESTMENT CORPORATION

The National Foreign Trade Council, a private, non-profit organization of more than 600 U.S. companies engaged in foreign trade and investment, submits the following comments with respect to certain provisions in the "Overseas Private Investment Corporation Act" (S. 2186) as well as the role of OPIC in general:

1. The bill makes specific reference to OPIC's function of encouraging foreign investment which benefits U.S. exports. Prior OPIC legislation focused solely on OPIC's role in assisting foreign economic development. This new emphasis on fostering trade-related investments is highly desirable.

Many economic studies have demonstrated that foreign direct investments serve to increase U.S. exports and thus help to generate export-related employment in the United States. For example, overseas affiliates and subsidiaries of U.S. corporations account for about one-third of all American exports.[1] Our investments provide short-term and long-term benefits for the U.S. economy as well as for host countries. They strengthen the U.S. balance of payments through both export expansion and through returns on capital investments abroad. They open up access to raw material not readily available from domestic sources.

Consistent with the recognition given to the role of OPIC in furthering trade-related investments, the bill should further provide that in administering OPIC's insurance and loan programs a significant objective shall be the protection and encouragement of such foreign investments.

2. We support the elimination of the current restriction on OPIC programs to investment projects in developing countries that have per capita income of $1,000 or less (in 1975 dollars).

The $1,000 per capita limitation was initiated by action of the Board of OPIC in 1977 and incorporated in the Overseas Private Investment Corporation Amendment Act of 1978 (P.L. 95–268), as Section 231 of the Foreign Assistance Act of 1961. This limitation serves to discourage U.S. investments in such countries as Argentina, Brazil, Panama, Singapore, Jamaica, Portugal, Greece, Israel, Venezuela, Yugoslavia and Rumania, among others. We cite the following statement[2] by Senator Javits to the Senate on the introduction of S. 2186:

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[1] OPIC 1979 Annual Report.
[2] Congressional Record. S19485, December 20, 1979.

"The restriction was added to the OPIC statute in 1978 in order to concentrate OPIC's development responsibility in those countries having the greatest need for development. However, OPIC has adequate resources available to serve the needs of both the poorest and the middle income developing countries. The additional income generated by OPIC from its support of projects in the middle income developing countries can be utilized for the support of projects in poorer developed countries. Further, the restriction limits one of the few development tools that the United States has in the middle income developing countries. Moreover, by utilization of an arbitrary national average, the restriction fails to take into account the disparity of per capita incomes within most nations. For example, the per capita income in the northeast of Brazil is among the poorest in the hemisphere even though Brazil's national average is above $1,000."

The Council supports those Section of S. 2186 which would eliminate the $1,000 restriction and would emphasize the importance of "mobilizing and facilitating the participation of United States private capital and skills in less developed friendly countries and areas in order to increase United States trade with, and contribute to the economic and social development of such countries and areas."

3. We would support the inclusion of language to emphasize the role OPIC should play as reinsurer and as a primary claims management agent of the political risk portfolios of private insurers. Clear U.S. Government support of the private insurance sector in resolving international political risk insurance claims vis-a-vis foreign governments would allow private insurers to provide needed insurance services at a lower underwriting risk position and result in a lower premium rate structure, and thus increase the funds available for investment insurance.

4. The preferential consideration given to investment projects sponsored by small business should not become a basis for policies adverse to large business projects, which can play an essential role in the economic development of host countries as well as in the promotion of U.S. exports. The special program of assistance for the exploration and development of new sources of minerals and energy should be expanded beyond the present $4 million limitation for direct loans and $50 million in loan guarantees.

5. Restrictions on loans and financing imposed for human rights, environmental and other foreign policy objectives should be carefully evaluated in terms of their economic impact as well as other considerations.

6. We would oppose as impractical any proposals to authorize OPIC insurance for existing investments not already covered.

7. We have testified in support of legislation to authorize OPIC operations in China.

The Council does not endorse all provisions of S. 2186, but we do agree with the overall objectives of the bill.

In general, the Council strongly supports the programs of the Overseas Private Investment Corporation as an essential factor in the expansion of American foreign trade and investment. Its direct loan and loan guarantee programs have served to facilitate direct investment abroad; its political risk insurance has encouraged U.S. companies to invest in developing areas which have benefited from an inflow of capital, while the U.S. economy has benefited from the expansion of the American presence in the world market place.

As one investor in five developing countries testified in 1977, "In truth, we would never have ventured overseas without the protection of the Overseas Private Investment Corporation."[3]

In its first decade, from 1970 to 1979, OPIC provided about $10 billion in political risk insurance (expropriation, inconvertibility and war risk) for private U.S. investment in 68 developing countries. It paid, guaranteed or provided indemnities for about $356 million to investors in settlement of 73 insurance claims. It also issued or agreed to provide $265 million in financing—direct loans and loans guaranteed against all risks. Operating on a self-sustaining basis, OPIC has total capital, reserves and retained earnings in excess of $583 million. Over the past six years, the Corporation has assisted 681 investment projects which it estimates will generate 47,000 American jobs, account for $1.9 billion in initial exports and an additional $8.1 billion in U.S. exports for the first five years after startup.[4]

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[3] OPIC 1977 Annual Report.

[4] Testimony of J. Bruce Llewellyn before the House Subcommittee on International Economic Policy and Trade, February 7, 1980.

The availability of investment insurance is often a determining factor in investment decisions; to the extent that private insurance is not available, Government insurance is a necessary element in the continued expansion of U.S. international investment. In our opinion, OPIC has demonstrated its important role as an effective partner of the private sector in maintaining U.S. leadership in international markets as well as in promoting the economic growth of developing countries.

NATIONAL ASSOCIATION OF MANUFACTURERS,
Washington, D.C., June 30, 1980.

Hon. FRANK CHURCH,
Chairman, Senate Committee on
Foreign Relations,
Russell Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: On June 12–13, your committee, under the chairmanship of Senator Sarbanes, held hearings on S. 2186, a bill to renew the authorization of the Overseas Private Investment Corporation, as well as to amend the mandate and restrictions under which OPIC operate. I regret that NAM was not able to participate in these hearings, but would like to submit for the record the following comments on S. 2186. In the interest of brevity, I will focus these comments on the more salient issues which emerged during the hearings, which relate to OPIC efforts to play a more substantial role in support of U.S. exports.

1. *Trade Purpose of OPIC.* It is the view of NAM that the Javits-Ribicoff bill is correct in seeking to re-orient OPIC by providing it with an explicit trade-support mandate. Senator Sarbanes and Assistant Secretary of the Treasury Fred Bergsten, at different times, both questioned whether the OPIC board, under its current authority, could make exceptions to present operating restrictions, purely on the basis of trade considerations. S. 2186 would remove this ambiguity by making trade considerations a paramount feature of the OPIC mandate. Given the linkage between AID and trade policies, which is common in all other industrial countries, it is appropriate for the United States to adopt this concept.

2. *Removal of Per-Capita GNP Limit.* OPIC at present may not issue insurance for new investments in countries with a per capita GNP greater than $1000 (in 1975 dollars). Such a limitation is incongruent with OPIC trade support mandate, as well as representing an unjustified artifical economic test in measuring development-aid "worthiness." Although Mr. Bergsten commented that only "Brazil and a few of the Middle East OPEC countries" were likely to be affected by this restriction, in fact, the following countries are already subject to per capita GNP restrictions on OPIC operations:

Argentina, Barbados, Brazil, Cyprus, Fiji, Gabon, Greece, Jamaica, Malta, Oman, Panama, Portugal, Romania, Saudi Arabia, Singapore, Suriname, Trinidad, Venezuela, and Yugoslavia.

If the present per capita GNP restriction is renewed through 1985, national growth trends could also cause restriction of OPIC operations in many other countries, including Korea, Malaysia, Tunisia, and Turkey.

Furthermore, note should be taken that limiting OPIC operations to the least developed among developing countries tends to run contrary to the Administration view concerning the importance and attractiveness of LDC markets. Thus, the following table shows that the poorer LDCs are actually providing a declining market, relatively speaking, for U.S. manufactured exports:

LDC's AS MARKETS FOR U.S. MANUFACTURED EXPORTS

	Percent of total U.S. manufactured exports	
	1970	1979
1. OPEC members	4.9	9.8
2. Newly industrializing countries: Brazil, Mexico, Taiwan, South Korea, Singapore, Hong Kong	9.5	14.2
3. All other LDC's	22.3	19.1

The significance of this table is to indicate that a continued emphasis on development support only in the very poor LDCs will lead to neglect of the more dynamic export markets in the advanced LDCs.

3. *Reorganization of OPIC Board and Agency Status.* While various Administration spokesmen (including the OPIC president and the Director of IDCA) have supported a trade orientation for OPIC, they object to OPIC's removal from the direct authority of IDCA. It is difficult to see how a trade-oriented OPIC could most responsively carry out its proposed trade role as an organization in the AID field, especially given the AID agency's "basic human needs" development priority and philosophy. Transfer of the Chairmanship of OPIC to USTR is more consonant with a stronger trade orientation. Such a transfer would tie in with USTR's expanded role in U.S. investment policy, as well as USTR's responsibility to negotiate specific trade issues.

These three aspects of OPIC trade support seem to be timely and appropriately addressed in the Javits-Ribicoff bill. It is NAM's hope that by beginning the legislative process of renewing OPIC's authorization at an early date, Congress can avoid the kind of lapse in OPIC operating authority which occurred in 1977–78.

Yours sincerely,

LAWRENCE A. FOX.

PREPARED STATEMENT OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

The Emergency Committee for American Trade (ECAT) is an organization of 64 large United States companies with extensive international business operations. A membership list is attached. In 1979, worldwide sales by these companies totalled $450 billion and they employed nearly 5 million people.

ECAT strongly supports S. 2186. In particular, we support (1) the extension of the Overseas Private Investment Corporation's (OPIC) authority through 1985, (2) the recognition that OPIC should encourage those investments which will directly or indirectly increase U.S. trade while continuing OPIC's development purpose, and (3) the elimination of the $1,000 per capita limit.

Section 101 of S. 2186 directs OPIC to mobilize and facilitate those investments in developing countries which would increase U.S. trade. This provision recognizes the critical importance of exports to the U.S. economy.

The United States trade balance is in very substantial deficit at a time when our nation's dependence on both exports and imports has never been greater. From a surplus of $2.6 billion in 1970, our balance of trade plunged to a deficit of $29.5 billion in 1979. The deficit for 1980 is estimated at approximately $35 billion. This decline is due in large part to the escalating cost of energy related imports. The continuation of this import dependence is inescapable. Even under the most ideal circumstances of conservation, exploration and the development of alternative energy sources, the United States cannot avoid dependence on oil imports.

Exports and income derived from overseas investments are the principal means of financing energy and other imports. Exports are also vital to the economic well-being of America's agricultural, manufacturing and service industries. It is estimated that each $1 billion of exports accounts for at least 40,000 jobs.

These economic facts have not been lost on our major international trade competitors, all of whom have extensive export promotion and financing programs, as well as investment insurance programs, which are aggressively utilized. As a result, competition for world markets has become fierce. Unfortunately, our share of world trade has been declining and our competitiveness in some areas is being eroded by changes in the world economy. In 1960, the United States share of world trade was 20 percent. By 1970, our share had dropped to 17 percent and has continued declining to about 14 percent today.

The importance of American foreign direct investment to the U.S. economy and the U.S. balance of payment is little known or recognized. In 1979, for example, U.S. overseas direct investments generated $37.7 billion of income to the United States. There was a $6 billion outflow of funds from the United States for purposes of foreign direct investment, leaving net income to the United States economy of $31.7 billion. This figure more than offset the deficit of $24.7 billion in the U.S. foreign trade account for 1979.

The imperative of the 1980's is to maintain our competitive position by encouraging exports. By encouraging direct investments, market shares increase and thus attract exports from the United States.

The facts support the relations between investment and trade. The most recent (1970) Commerce Department survey on U.S. international investment concluded that over 50 percent of U.S. exports are associated with multinational corporations. Indeed, American companies' direct investments abroad are undertaken as a result of careful business analyses which indicate the need to invest broad if inroads are to be made successfully into foreign markets. Moreover, international investment by U.S. multinationals is a job-producing enterprise for Americans. Since an estimated 40,000 jobs are created by each $1 billion in exports, approximately 7.4 million American jobs were dependent on U.S. exports in 1979. Given the amount of U.S. exports associated with multinational corporations, simple arithmetic shows that as many as 3.7 million American workers are producing exports for the foreign affiliates of American companies.

The positive effect on jobs created in the United States is evident with respect to OPIC's programs. In fiscal year 1979, OPIC insured or financed investments in 84 projects in 33 countries. These 84 projects will initially generate $330.2 million in U.S. exports and an estimated additional $637 million in U.S. exports during the following 5 year period.

At the same time that OPIC has helped increase U.S. exports and jobs, OPIC has also assisted the economic development of the developing nations. It is estimated that the 84 projects will generate an estimated 16,884 new jobs in these nations during the first 5 years of operation, many of which will be managerial and professional positions.

The elimination of the $1,000 per capita limit would facilitate the development objectives of OPIC. Originally designed to concentrate OPIC's programs in those countries having the greatest need of development, the restriction has instead hindered those objectives. By establishing such an arbitrary limit, the restriction fails to take into account the disparity of per capita income within most nations. For example, northeast Brazil has among the lowest per capita income in the western hemisphere, even though Brazil's national average is above $1,000. OPIC has adequate resources to serve the needs of the poorest and the middle income developing countries. Furthermore, OPIC's primary purpose is to mobilize and facilitate U.S. investment in developing countries rather than direct U.S. business activities into predetermined countries. The removal of the restriction will permit OPIC to offer its programs in all developing countries. However, Section 101(m) directs OPIC to give preferential consideration to projects in the poorest developing countries.

It is in our foreign economic policy interest, with respect to both our commitment to expand exports and to aid in the economic development of LDC's, to develop a more positive U.S. policy towards U.S. companies' international investments. Such a policy should include programs ranging from more favorable tax policies that take account of the policies of our competitors to more positive support of U.S. investments in individual markets through programs such as those offered by OPIC.

STATEMENT OF CHARLES W. ROBINSON, ASEAN-U.S. BUSINESS COUNCIL, WASHINGTON, D.C.

As chairman of the U.S. section of the ASEAN-U.S. Business Council, it is my pleasure to express our support for S. 2186, the Overseas Private Investment Corporation Act, introduced by Senators Javits and Ribicoff.

THE ASEAN-U.S. BUSINESS COUNCIL

The ASEAN-U.S. Business Council was formed in 1979 with the support of the respective governments. It is co-sponsored by the Chamber of Commerce of the United States and the ASEAN Chamber of Commerce and Industry (ASEAN CCI). The seventy corporate executives of the U.S. section represent all lines and sizes of business involved in trade with and investment in the five countries of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The Council serves as a recognized channel of private sector communications to promote economic and commercial exchange and to develop recommendations for the respective governments on policies to stimulate greater trade, investment, and technology transfer between the United States and ASEAN.

THE SIGNIFICANCE OF THE ASEAN REGION

As the committee is well aware, the ASEAN countries together represent one of the most rapidly developing areas of the world. Today, they have become our fifth largest trading partners with a total two-way trade last year of over $16 billion. In addition, U.S. companies have invested approximately $4 billion in manufacturing, natural resource and service facilities in the region.

In an effort to promote additional U.S. investment in the region, I was asked to lead a 25 member OPIC-sponsored mission to each country in late 1978. In our meetings with each of the heads of state and other government officials, we were impressed with the fact that there is a congruence of U.S. national and private sector interests in the ASEAN region.

When it comes to its dealings with foreign countries, in addition to its economic potential, ASEAN is an increasingly cohesive political unit. With U.S. withdrawal from Vietnam in 1975, the ASEAN countries were confronted with a serious external threat to their security. Time and again, U.S. Government officials have expressed support for the ASEAN concept, recognizing the important, stabilising role it plays in this strategic and economically significant area of the world.

It is our firm belief that, through the cooperative efforts of the ASEAN and U.S. private sectors, a major contribution can be made to the economic progress and stability of the region and, with it, enhanced security—all brought about through peaceful means.

Clearly, the Congress and the administration have an interest in furthering this economic and political entity in our own national interest. Thus, it becomes all the more imperative that we utilise every resource available to increase our international competitive position in ASEAN and elsewhere.

ROLE OF OPIC IN FOSTERING PRIVATE SECTOR INVOLVEMENT

The Overseas Private Investment Corporation (OPIC) is virtually the only governmental institution that is specifically charged with fostering economic development through the all-important investment process. OPIC provides insurance and guarantees against certain political risks, it provides financing and it assists in identifying overseas investment opportunities that match host country needs with U.S. private sector capabilities.

In a region where Japanese, European and other firms are highly competitive with our own and where their respective governments actively encourage the private sector, the potential role that OPIC can perform for our economic interests becomes that much more significant.

IMPROVING OPIC'S COMPETITIVENESS

We welcome this committee's consideration of S. 2186 because this bill restores many competitive characteristics to OPIC that, unfortunately, have been removed or modified over the years. In addition, the bill would redefine OPIC's overall mandate by clearly establishing the trade promotion function as a top priority.

But, there are a number of other reforms that should be made in OPIC's charter in order to evidence U.S. support for its private sector in such important developing country regions as ASEAN.

First, in order to maximize OPIC's potential in ASEAN, serious consideration should be given to the establishment of a regional office to provide on-location services to U.S. firms. To enhance effectiveness, such an office could be combined with representative offices of the U.S. Export–Import Bank, the Reimbursable Development Program (RDP), and the regional offices of the Foreign Commercial Service, if apropriate. Not only would such an office demonstrate our commitment to augmenting our commercial presence in the region, but it would be an important signal of our political support as well.

Second, OPIC must be given increasing authority to provide the necessary funding for greater U.S. involvement in feasibility studies. As a result of our investment mission in 1978, it became clear that one of the most effective means by which the U.S. Government could strengthen the contribution of our private sector was to become more involved in infrastructure projects which are often dependent upon the availability of loans or grants from the supplier country.

Third, OPIC must be granted additional authority to expand its guaranty and financing programs. With its emphasis on promoting greater involvement of small and medium sized firms in investment projects abroad, it is essential that OPIC have sufficient resources and flexibility to provide greater financial support in order for these much needed smaller-scale projects to proceed.

Finally, while the 1978 mission to the ASEAN countries can now be judged a modest success in stimulating a number of new projects, it was clearly just a first step. OPIC should organize additional missions to the ASEAN countries—targeted to the specific needs of ASEAN. This would suggest that firms that make optimal use of ASEAN's available resources be allowed to participate. And, a special emphasis should be placed on infrastructure projects with missions comprised of construction and engineering representatives.

CONCLUSION

Revising OPIC's charter is one small step toward strengthening a weak link in our competitive fabric. Others are required in such areas as the application of our anti-trust laws to foreign operations, U.S. taxation of incomes earned abroad and a whole litany of self-imposed disincentives to existing and potential U.S. exporters and foreign investors.

OPIC is a unique institution. It is a small but effective part of our international competitive posture. It should be encouraged and given the proper resources and authority to do its job effectively.

AMERICAN STOCK EXCHANGE INC.,
New York, N.Y., June 19, 1980.

Hon. FRANK CHURCH,
U.S. Senate,
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR CHURCH: I am writing to submit comments for the record in support of S. 2186, which would extend operating authority for the Overseas Private Investment Corporation (OPIC) and make several statutory modifications to improve its effectiveness.

Foreign investment can play a major role in improving the U.S. trade position, and smaller companies, with their flexibility and adaptability to fluctuating market conditions, can make an important contribution to that improvement. The support and assistance which OPIC has been providing in its counselling and financial aid for direct investment in developing countries are crucial to enabling smaller companies to identify and invest in business opportunities abroad.

In connection with my work as chairman of the White House Commission on Small Business, I have become familiar with OPIC's active program of assistance for smaller companies. In addition to its participation in two years of Conference meetings, OPIC has sponsored a comprehensive export and investment seminar program for smaller companies in cooperation with a number of government agencies.

OPIC has also reduced registration fees for small companies and developed a special incentive program for insurance agents who help small business customers with the purchase of political risk insurance.

I appreciate the efforts which OPIC has made on behalf of smaller companies and anticiapte that the special services which the corporation can provide will become increasingly important in opening the world of international trade to small and growing businesses.

Sincerely,

ARTHUR LEVITT, Jr.

ANDREW YOUNG,
July 25, 1980.

Hon. FRANK CHURCH,
Committee on Foreign Relations,
U.S. Senate,
Washington, D.C.

DEAR SENATOR CHURCH: I am writing to express my strong support of S. 2186, a bill to extend the authority of the Overseas Private Investment Corporation to 1985.

The Congress and our private economic institutions are rightly concerned about the critical need to expand United States trade and hence strengthen our economy and reduce unemployment. The proposed legislation is a wise and effective means of meeting that purpose.

OPIC, particularly under the leadership of J. Bruce Llewellyn, has earned a reputation for stimulating development in the less affluent nations—a process that, in turn, creates new markets for American goods and services.

The legislation now before your Committee will enable OPIC to continue to build on that record, and will also strengthen OPIC's ability to help U.S. companies broaden their assistance and investments in the developing world.

In this era of global inflation and high unemployment, our international economic inter-dependence is readily apparent. S. 2186 will significantly help our nation to address that reality in a manner which serves our own national interests and at the same time contributes to the economic growth of poor countries. I cannot think of a better, more prudent investment of American resources.

Let me take this oportunity to thank you and your Committee for your leadership in improving our international economic policies and for your support of the work of OPIC.

Sincerely,

ANDREW YOUNG.